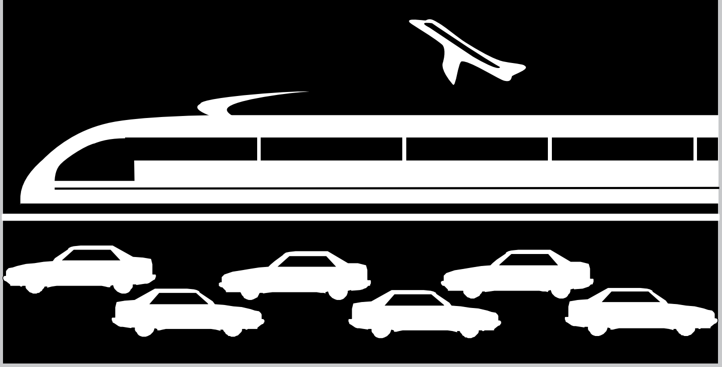
TRANSPORTATION



LAO
55 Years of Service

2000-01 Analysis

Governor's Transportation Initiative Has Shortcomings

- ***Advancing Funds.*** The initiative proposes to advance $3.6 billion of future funds for additional projects for the period 2000-01 through 2003-04. While programming some additional projects would allow design work to start sooner, it is unlikely that these projects can all be delivered during this period due to various constraints. (see page A-13).
- ***Staffing Difficulties***. We estimate that the initiative would require Caltrans to hire between 4,000 to 8,000 additional personnel-years of staff to design projects over the next four years. Given Caltrans' current vacancies, the department's ability to hire and train staff in time to deliver the additional projects is questionable (see page A-20).
- ***Little Near-Term Relief.*** Given the length of time it takes to deliver projects, the initiative would provide little immediate congestion relief (see page A-21).
- ***"Use-It-or-Lose-It"***. We find the proposed use-it-or-lose-it provisions for two types of local transportation funds—federal transportation funds and gas tax revenues—unwarranted and recommend against them (see page A-22).
- ***Rail Improvements***. The budget proposes $71 million from the General Fund for commuter and urban rail capital improvements. We recommend that funding be provided in a lump sum instead of by individual projects because project budgeting is not consistent with the current transportation funding process (see page A-75).

☑ **Project Delivery Could Be Improved**

- Caltrans' project delivery has improved, but is still hampered by vacancies, its use of project management, and fragmentation of state and federal funding. We recommend steps to expedite delivery of transportation projects (see pages A-41 to A-53).

☑ **Environmental Review Process Should Be Streamlined**

- Most delay in delivering transportation projects occurs during environmental review. We recommend steps to expedite the environmental review process (see pages A-53 to A-62).

☑ **Projected Funding Shortfall for Mass Transportation**

- The Public Transportation Account, which funds mass transportation, is projected to have a shortfall of $53 million from 2000-01 through 2003-04. We recommend enactment of a constitutional amendment to permit expenditure of gas tax revenues for transit rolling stock (see page A-27).

☑ **Passenger Rail Considerations**

- Intercity rail service has increased in recent years. In order to determine the cost-effectiveness of intercity rail service, we recommend the development of multiyear performance standards. Also, we recommend that a comprehensive passenger rail study be conducted in order to determine the state's priorities for passenger rail transportation (see pages A-62 to A-72).

☑ **DMV's Computer Replacement Projects in Disarray**

- After earlier failures and delays, DMV's efforts to replace its major computer databases are now encountering new problems. We recommend denial of funding for a related computer project, as well as an independent audit of DMV's database replacement efforts (see page A-91).

☑ **DUI Hearing Backlog Continues**

- The DMV remains unable to hold hearings for DUI-related license suspensions within statutory timeframes. While an increase in staffing is warranted, the appropriate *size* of the increase can only be determined with additional information from the department (see page A-99).

TABLE OF CONTENTS
Transportation

Overview A-7

Spending by Major Program A-8

Major Budget Changes A-10

Crosscutting Issues A-13

Governor's Transportation 2000 Initiative A-13

Condition ofTransportation Funds A-25

Legislative Oversight A-31

Departmental Issues A-35

Department of Transportation (2660) A-35

High-Speed Rail Authority (2665) A-81

California Highway Patrol (2720) A-83

Department of Motor Vehicles (2740) A-90

Findings and Recommendations A-103

OVERVIEW

Transportation

Total expenditures from state funds for transportation programs are proposed to be moderately higher in 2000-01 than estimated current-year expenditures. The increase is due mainly to somewhat higher expenditures of $468 million for highway improvements.

For traffic enforcement, the budget proposes minor increases in the expenditure levels of the California Highway Patrol and the Department of Motor Vehicles.

The budget proposes total state expenditures of about $6.4 billion for transportation programs in 2000-01. This is an increase of $479.7 million, or 8.1 percent, over estimated expenditures in the current year.

Figure 1 shows that state-funded transportation expenditures increased by about $2 billion since 1993-94, representing an average annual increase of 5.4 percent. When adjusted for inflation, these expenditures increased by an average of 3 percent annually. The increase is in part the result of the full implementation of the *Transportation Blueprint* legislation enacted in 1990. In order to provide additional state funds for highway and mass transportation programs, the legislation increased the tax on motor vehicle fuel (gasoline and diesel) and truck weight fees as well as authorized specific bond measures. In addition, in March 1996, voters passed Proposition 192 which authorized $2 billion in bonds for seismic retrofit of highways and bridges. In August 1997, the Legislature enacted legislation to fully fund the seismic retrofit of state-owned toll bridges.

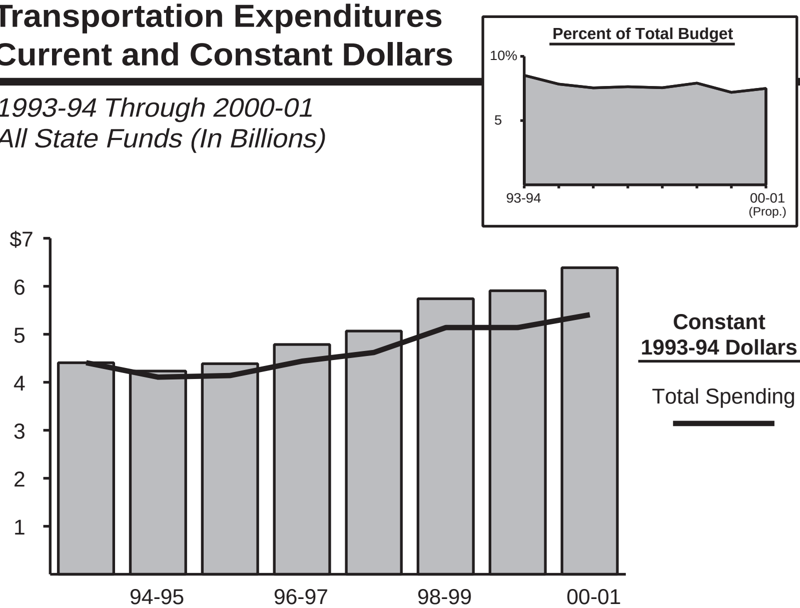
Figure 1 (see next page) also shows that transportation expenditures as a share of total state expenditures have fallen slightly from the 1993-94 level, and since then, have remained relatively stable. In 2000-01, proposed transportation expenditures will constitute about 7.5 percent of all state expenditures.

Of the 2000-01 state transportation expenditures, about $5 billion is proposed for programs administered by the state, and $1.1 billion is for subventions to local governments for streets and roads. Another $341 million will be for debt-service payments on rail bonds issued under Propositions 108 and 116 of 1990, and seismic retrofit bonds issued under Proposition 192 of 1996.

Figure 1

Transportation Expenditures Current and Constant Dollars

1993-94 Through 2000-01 All State Funds (In Billions)



Spending by Major Program

Figure 2 shows spending for the major transportation programs in detail. Specifically, the budget proposes expenditures of $7.5 billion (from all fund sources including federal and bond funds) for the Department of Transportation in 2000-01—an increase of $463.9 million (6.6 percent) above estimated current-year expenditures. In addition, the budget proposes $121 million from the General Fund for rail improvement. This amount represents an increase of $82.7 million over estimated current-year expenditures from the General Fund.

Support for the California Highway Patrol (CHP) is proposed at about $929.9 million—$12.6 million, or 1.4 percent, higher than the current-year level. About 91 percent of the expenditures would be funded from the Motor Vehicle Account. For the Department of Motor Vehicles (DMV), the budget proposes support of $632.7 million, about $23.5 million (3.8 percent) more than in the current year. These expenditures would be funded mainly from the Motor Vehicle Account and vehicle license fees. (This proposed funding level does not include $4.7 million in administrative costs to DMV to refund smog impact fees, as shown in the Governor's budget. The Department of Finance advises that these funds will be sought through separate legislation.)

Figure 2

Transportation Budget Summary Selected Funding Sources

1998-99 Through 2000-01 (Dollars in Millions)

	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Change From 1999-00 Amount	Change From 1999-00 Percent
Department of Transportation					
State funds	$3,169.6	$3,326.6	$3,628.9	$302.3	9.1%
Federal funds	1,921.9	2,538.7	2,998.4	459.7	18.1
Reimbursements	381.4	1,177.7	879.6	-298.1	-25.3
Totals	**$5,472.9**	**$7,043.0**	**$7,506.9**	**$463.9**	**6.6%**
California Highway Patrol					
Motor Vehicle Account	$741.3	$789.1	$844.7	$55.6	6.6%
Other	96.8	128.2	85.2	-43.0	-33.6
Totals	**$838.1**	**$917.3**	**$929.9**	**$12.6**	**1.4%**
Department of Motor Vehicles					
Motor Vehicle Account	$311.5	$318.9	$330.0	$11.1	3.5%
Motor Vehicle License Fee Account	233.7	233.3	246.0	12.7	5.4
Other	81.9	57.0	56.7	-0.3	-0.5
Totals	**$627.1**	**$609.2**	**$632.7**	**$23.5**	**3.8%**
State Transportation Assistance					
Public Transportation Account	**$100.3**	**$100.3**	**$101.0**	**$0.7**	**0.7%**

Additionally, the budget proposes to fund the State Transportation Assistance (STA) program in 2000-01 at $101 million, essentially the same level as the current year. Annual funding of the program is determined based on a statutory formula, and the level varies depending on anticipated revenues into the Public Transportation Account (PTA).

MAJOR BUDGET CHANGES

Figure 3 highlights the major changes proposed for 2000-01 in various transportation programs.

As the figure shows, the budget proposes to increase highway construction by the Department of Transportation (Caltrans) by $468.4 million, while highway and road improvements carried out by local agencies are anticipated to be lower than the estimated current-year level by $113.3 million. These changes do not reflect the potential impact on highway capital improvement expenditures resulting from the Governor's proposals. Instead, the changes primarily reflect anticipated expenditures based on highway projects currently scheduled for construction in the State Transportation Improvement Program (STIP) and Caltrans' estimation of the rate local agencies will be expending federal funds.

The budget does not propose any increase in highway engineering and design support. However, it indicates that the level may be changed in April or May 2000 depending on whether the California Transportation Commission programs additional projects for construction in the 2000 STIP.

The budget also includes an increase of $121 million (from the General Fund) for trains and station improvements for intercity, commuter, and urban rail services. In addition, the budget proposes $41.5 million to provide ongoing funding to implement stormwater pollution cleanup requirements under the federal permit for waste discharge. This amount is $3.5 million more than current-year one-time expenditures on stormwater pollution.

For CHP, the budget proposes $1.7 million for additional motorcycle officers to provide congestion relief on state highways. A similar amount is proposed to inspect and certify farm labor vehicles for safety compliance, and to investigate organized vehicle fraud activities. The department is also proposing an additional $3.7 million in expenditures to provide safety enforcement at highway construction sites. These expenditures will be reimbursed by Caltrans.

For DMV, the budget proposes an increase of about $23.5 million in departmental support in 2000-01. Significant increases include $15.6 million to implement various newly enacted legislation. Specifically, the department will continue to implement the proof of insurance program which Chapter 880, Statutes of 1999 (SB 652, Speier) extended. The budget is also requesting increases of $7.8 million for facilities repairs and furniture and an increase of $3.8 million to accommodate workload increases in various areas.

Figure 3

Transportation Programs
Proposed Major Changes for 2000-01

Department of Transportation	**Requested:**	**$7.5 billion**
	Increase:	**$463.9 million (+6.6%)**

- \+ $468.4 million in highway construction
- \+ $121 million for intercity and commuter rail projects
- \+ $5.4 million for electrical and landscape maintenance
- \+ $3.5 million for stormwater pollution cleanup

- − $113.3 million in local assistance for road improvement

California Highway Patrol	**Requested:**	**$929.9 million**
	Increase:	**$12.6 million (+1.4%)**

- \+ $1.7 million for motorcycle officers for highway congestion relief
- \+ $1.8 million for farm labor vehicle inspection and certification
- \+ $1.7 million to investigate organized vehicle fraud
- \+ $3.7 million to enforce highway construction site safety

Department of Motor Vehicles	**Requested:**	**$632.7 million**
	Increase:	**$23.5 million (+3.8%)**

- \+ $15.6 million to implement newly enacted legislation
- \+ $4.5 million to redesign financial system
- \+ $7.8 million for facilities repair and furniture
- \+ $3.8 million for workload increases
- \+ $3.3 million to enhance driver safety program

CROSSCUTTING ISSUES

Transportation

GOVERNOR'S TRANSPORTATION 2000 INITIATIVE

The Governor's budget proposes a transportation initiative with multiple elements to speed up project delivery and relieve congestion. In this and the following sections, we describe the initiative and provide our assessment of it. Specifically, we conclude that:

- ***The initiative does not result in any new funds being made available for transportation, outside of rail and ferries. Rather, the initiative proposes to program $3.6 billion in additional transportation projects earlier than planned.***
- ***Given the large magnitude of projects involved, it is unlikely that Caltrans and local transportation agencies can, within the four-year State Transportation Improvement Program (STIP) period, deliver them given various constraints.***
- ***The initiative's environmental streamlining proposal lacks any details.***
- ***Extending the STIP has merit because it provides a longer planning horizon thereby allowing more projects to be developed sooner.***
- ***The use-it-or-lose-it provision regarding local agencies' use of federal transportation funds is not warranted at this time. The related proposal regarding the use of local gas tax refunds should not be adopted because it could exacerbate the backlog of local streets and roads maintenance needs.***

Overview

The 2000-01 budget includes an initiative—Transportation 2000—designed to relieve congestion by speeding up project delivery. The key elements of the proposal are summarized below in Figure 1. As the figure shows, the Governor's transportation initiative addresses both highways and road transportation as well as public transit. It focuses on getting projects constructed sooner. This is to be achieved mainly by (1) programming more projects into the State Transportation Improvement Program (STIP) and (2) inducing local agencies to use their share of transportation funds more expeditiously via use-it-or-lose-it provisions.

In addition, the initiative provides funding for specific rail track and signal improvements and equipment acquisition for urban and commuter rail as well as intercity rail. The budget also provides funds for planning work to be done for a Bay Area ferry system, in accordance with Chapter 1011, Statutes of 1999 (SB 428, Perata).

With the exception of expenditures for various rail and ferry projects, the initiative contains no *new* funding for transportation.

In this section, we discuss the following elements of the Governor's transportation initiative.

- Programming $3.6 billion of projects in the 2000 STIP.
- Environmental streamlining.
- Extending the STIP period.
- Use-it-or-lose-it provisions.

Our discussion of the proposal relating to rail and ferry funding is in Item 2660, Department of Transportation in this chapter.

Background

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 STIP, a four-year programming document which is adopted every two years by the California Transportation Commission (CTC). The STIP contains projects that increase the capacity of the state's transportation infrastructure. Typical STIP projects include roadway widening, new interchanges, and high occupancy vehicle lane construction. Another program, the State Highway Operation and Protection Program (SHOPP), includes all major state highway system projects that do not increase capacity, but rather provide traffic safety, roadway and bridge rehabilitation, and operational improvements. Typical SHOPP projects include roadway rehabilitation and bridge repairs.

Figure 1

Key Provisions of Transportation 2000 Initiative

Funding Proposals

- Accelerate $3.6 billion of funds into the 2000 State Transportation Improvement Program (STIP).
  - $3 billion in bonds backed by future federal transportation funds.
  - $600 million from the State Highway Account by lowering reserve.
- Amend Article XIX of State Constitution to allow a portion of fuel taxes to be used for transit capital and operating costs.

Transportation Programming

- Extend the STIP from four years to seven years to allow work to begin on projects that would otherwise be delayed until funds become available in the 2002 or 2004 STIP.

Environmental Streamlining

- Direct the Business, Transportation and Housing Agency, the California Environmental Protection Agency, and the Resources Agency to develop methods to streamline environmental review.

Use-It-or-Lose-It Provisions

- Expedite use of $300 million in local gas tax funds and $800 million in unused local agency federal funds. If local agencies do not spend funds within certain time period, state would reprogram funds for other projects.

Public Transportation

Intercity Rail

- $30 million for two train sets for the San Diegan line.
- $20 million for track improvements on the San Joaquin line.

Urban and Commuter Rail

- $15 million for track and signal improvements on the Metrolink Los Angeles to San Bernardino line.
- $36 million for Altamont Commuter Express to upgrade tracks, purchase an additional train, and expand service from Modesto to the Silicon Valley.
- $5 million for the Caltrain Coyote Valley Station and $15 million for the Winchester Light Rail Station serving San Jose commuters.

Ferries

- $12 million for planning, environmental, and feasibility studies for a Bay Area ferry system.

State law requires Caltrans to submit a fund estimate to the CTC that projects state and federal revenues and expenditures for highway and rail projects over the forthcoming STIP period. The purpose of the fund estimate is to provide a realistic estimate of the funds available for scheduling projects for delivery in the STIP and the SHOPP.

The 2000 STIP to Be Adopted in July. Chapter 622, Statutes of 1997 (SB 45, Kopp) shortened the STIP period from seven to four years, and provided the 1998 STIP to be a six-year STIP to allow for the transition. As a result, the 2000 STIP is the first four-year STIP covering 2000-01 through 2003-04—the same period as the last four years of the 1998 STIP. Because most of the anticipated revenues for the 2000 STIP period were already programmed in the 1998 STIP, Caltrans initially did not expect to program many additional projects in the 2000 STIP. However, recent legislation, combined with the Governor's initiative and existing reserves, would now provide approximately $4.5 billion in additional *programming capacity* for the 2000 STIP.

The CTC intends to revise the fund estimate by early March 2000 to reflect the additional programming capacity and provide regions and Caltrans the opportunity to program more projects. The CTC would then adopt the 2000 STIP in July 2000.

Governor's Initiative Substantially Expands 2000 STIP

The administration proposes to accelerate $3.6 billion worth of projects in the 2000 STIP through a combination of bonds backed by future federal funds and more aggressive cash management of state funds.

The amount for additional programming will reach $4.5 billion when the Governor's proposal is added together with (1) reserves held in the current STIP that are yet unprogrammed, and (2) an advance of funds for project development pursuant to recent legislation.

We think that programming more projects into the STIP would allow project design work to proceed sooner. However, we question whether the state and local agencies can deliver a program that is about 23 percent larger than the program would otherwise have been under current law.

Currently, Caltrans and local agencies are working to deliver $14 billion in transportation projects (including capital outlay support) over the four-year period from 2000-01 through 2003-04. Figure 2 shows the size of the current program, including projects to be delivered by local agencies and STIP and SHOPP projects that are delivered by Caltrans. Absent the Governor's initiative, the program over the next four years would increase to about $15 billion. With the initiative, the 2000 STIP would be expanded substantially to be about $19 billion. This would be an increase of about 31 percent over the current program, and about 23 percent larger than what the 2000 STIP would be under current law.

The STIP Reserves Will Be Programmed. The current STIP contains about $524 million in funds that various counties designated as reserves, and are not yet programmed for specific projects. Regions choose to reserve their share of transportation funds for various reasons, such as to cover unanticipated cost overruns or to set aside funds for a costly project that is not yet fully funded. In the 2000 STIP, it is anticipated that most of the reserves would be programmed for specific projects.

Recent Legislation Advances Funds for Environmental Studies and Design Work. Chapter 783, Statutes of 1999 (AB 1012, Torlakson) added an advance project development element (APDE) to the STIP. Specifically, the APDE gives Caltrans and regions an advance on a portion of future transportation funds for environmental review and design work only. For the 2000 STIP, $375 million will be available for APDE. As authorized by Chapter 783, this amount is equivalent to 25 percent of the amount estimated to be available for project programming in the first two years after the 2000 STIP period (that is, 2004-05 and 2005-06).

Figure 2

State Transportation Improvement Program (STIP) Anticipated Expenditures

2000-01 Through 2003-04
(In Millions)

1998 STIP	
Local assistance	$3,717
SHOPP, minor projects	3,428
STIP commitment	4,674
Capital outlay support	2,654
Subtotal	$14,473
Reserves to be programmed	$524
Advanced Project Development Element (Chapter 783, Statutes of 1999 [AB 1012, Torlakson])	375
2000 STIP	$15,372
Governor's initiative	3,600
Revised 2000 STIP	**$18,972**

Governor's Proposal Will Add $3.6 Billion in Projects. In order to increase project delivery further, the Governor's initiative proposes to accelerate $3.6 billion worth of projects to be delivered in the four years of the 2000 STIP. This would be achieved by:

- Providing $3 billion in Grant Anticipation Revenue Vehicle (GARVEE) bonds.
- Making $600 million in State Highway Account (SHA) funds available by reducing cash reserves.

The GARVEE Bonds Advance Future Federal Funds; Bonds Not Likely to Be Issued for Several Years. The administration proposes to add programming capacity to the 2000 STIP by simply pledging to issue GARVEE bonds in the future. While the administration cannot specify when GARVEE bonds will be issued as a result of the initiative, it indicates that the use of the bonds would be on a relatively short-term basis and would not rely upon federal funds anticipated to be available beyond 2006.

The GARVEE bonds, authorized by Chapter 862, Statutes of 1999 (SB 928, Burton), are used for transportation projects and are backed by future federal funds. It is importation to note that GARVEE bonds do *not* increase the total amount of federal revenues the state receives. Thus, to the extent that GARVEE bonds are used to finance projects in the 2000 STIP, the state will have less federal funds available for projects in the future because a portion of the future federal revenue stream will be committed to repaying the bonds.

In evaluating GARVEE bonds, the Legislature has to determine whether the benefits of delivering projects in advance outweigh the interest payments and other costs associated with the bonds. Our review shows that given the relatively high cash balance in the SHA and the length of time it takes to deliver transportation projects, it is unlikely that the bonds would be needed for several years (we discuss the condition of the SHA balance in the following section). Additionally, if the STIP period is legislatively extended to seven years, state and federal transportation funds anticipated for the three additional years would be automatically incorporated into the STIP for project programming. This would provide over $3 billion for the extended STIP.

Reducing SHA Cash Balance to Allow More Project Programming. Also, in response to the sizeable SHA cash balance, the initiative proposes to program an additional $600 million for state and local projects in the 2000 STIP. This would be made possible by (1) lowering the amount of SHA cash reserve from $440 million to about $140 million by improving the department's cash management and (2) assuming that various delays in project delivery would free up another $300 million over the four-year STIP period.

Increasing Projects in STIP to Speed Up Project Development Has Merit; Magnitude of Increase Questionable. Accelerating funds available for programming in the STIP would allow the state and local agencies to begin project development work sooner. This would allow improvements to the state's transportation system to be made earlier than otherwise. However, the proposed acceleration of funding is of such a large magnitude that it is questionable whether the projects can be delivered in the 2000 STIP. We discuss in the following sections of this write-up, various constraints that may impede the delivery of these projects.

Availability of Projects for Expanded STIP Questionable

It is highly unlikely that Caltrans and local agencies will have sufficient planned projects that can be readily programmed into an expanded State Transportation Improvement Program. Waiving the planning process could result in future project cost changes and schedule delays.

Are Projects Ready to Use Additional Programming Capacity? Under current law, a project cannot be programmed into the STIP unless it is fully funded. Additional funds for programming, however, do not by themselves enable new projects to be programmed. This is because, prior to being programmed in the STIP or the SHOPP, projects must have a completed project study report (PSR) which identifies the scope, cost, and schedule of the project. Typically, PSRs for projects on the state highway system are prepared by Caltrans, while PSRs for projects off the state highway system (such as rail or local street and road projects) are prepared by local agencies. Because neither Caltrans nor local agencies could have anticipated this substantial acceleration of funds to be programmed, it is highly unlikely that they will even have close to $3.6 billion of projects with completed PSRs to use all of the programming capacity generated under the Governor's initiative.

Requirement for a PSR Should Not Be Waived to Expedite Programming. One way to expedite projects for programming would be to remove the PSR requirement. We would caution against this, except for the most simple rehabilitation projects. Although the lack of a PSR does prevent a project from being programmed into the STIP and project development work to commence, PSRs play an important role in timely project delivery. It is in the PSR stage, for instance, that the purpose and need for the project, as well as project alternatives, are defined. To the extent that this is done carefully, giving consideration to such matters as community support for the project, a project's cost and schedule can be estimated with greater accuracy. By contrast, failure to give adequate consideration to such factors could cause substantial delay at a later date due to failure to anticipate concerns likely to be raised during the environmental review.

Initiative Would Necessitate Significant Expansion of Caltrans

Depending on the mix of projects that would be programmed in the 2000 State Transportation Improvement Program (STIP), Caltrans would have to expand its capital outlay support staff significantly—ranging from an additional 4,000 personnel-years to over 8,000 personnel-years mainly in the next two years (at a total cost of $400 million to over $800 million)—if the projects are to be delivered in the 2000 STIP period.

Beyond the question of whether projects are ready to be programmed is an even more critical question—whether Caltrans or local agencies have the ability to hire and train staff to perform the necessary design and project development work to deliver an additional $3.6 billion worth of projects in the next four years.

Caltrans Will Need Significant Staff Increase. As Figure 2 shows, Caltrans and local agencies are currently working to deliver almost $12 billion worth of STIP, SHOPP, and local projects between 2000-01 and 2003-04 (1998 STIP). To deliver this work, Caltrans estimates that it would cost about $2.7 billion in state staff support in the next four years, in addition to local staff support. In 1999-00, Caltrans has a staff of 10,992 personnel-years to do project development work on STIP and SHOPP projects, at an estimated cost of about $980 million. An additional $30 million is estimated to be spent to provide assistance to local agencies to deliver their projects.

Our review shows that Caltrans and local agencies will need to expand their staff significantly in order to develop an additional $3.6 billion worth of projects. The number of additional staff Caltrans will need would depend on the mix of highway and off-highway projects programmed. The larger the proportion of projects on the state highway system, the larger will be Caltrans' staffing need. Using Caltrans' methodology in estimating capital outlay staffing level, we estimate that Caltrans could need an increase of between 4,000 to over 8,000 personnel-years of staff over the next four years to handle the additional workload, at a rough cost estimate of between $400 million to over $800 million. Most of the increase would be concentrated in the next two years if projects are anticipated to be ready for delivery in 2003-04.

Can Staff Be Hired and Trained in Time to Deliver Projects on Schedule? Caltrans capital outlay staff have undergone significant expansion in the last two years, mainly as a result of significant increases in federal transportation funding under the Transportation Equity Act for the 21st Century. Currently, Caltrans is having difficulty hiring and retaining staff to meet its workload. Specifically, the department now has a 9 percent vacancy rate in its project development and engineering staff, and a 30 percent vacancy rate in its local assistance staff who play a key role in guiding local agencies through projects funded with federal funds. (Please see further discussion on vacancies and project delivery in Item 2660, Department of Transportation.)

The relatively high vacancy rates raise doubt as to whether Caltrans can hire sufficient staff readily to meet the challenge of delivering a significantly larger STIP. The budget anticipates revising Caltrans' staffing request in May, after the department and CTC have a better assessment as to the number and types of projects that would be scheduled for delivery in the 2000 STIP. We recommend that the Legislature consider the above issues when evaluating the department's staffing request to meet the additional workload.

Initiative's Potential for Short-Term Congestion Relief Depends on Types of Projects

Certain transportation projects, particularly system management projects that focus on managing highway congestion, could relieve some congestion in the short term.

An important objective of the initiative is to relieve congestion on highways and roads. Even if the department is able to hire and train sufficient staff, however, meeting the objective of congestion relief partly depends on the types of projects chosen for programming by Caltrans and local agencies. To the extent that major transportation capital outlay projects are selected or programmed, such projects would typically not be completed for five to ten years, and would, therefore, provide no short-term relief. On the other hand, system management projects, which focus on *managing* highway congestion, may be capable of providing congestion relief sooner. Examples of system management projects include (1) controlling entry to the freeway system by ramp meters; (2) alerting motorists of accidents and recommending alternative routes via electronic message signs; and (3) monitoring and managing traffic congestion created by construction zones, special events, or emergencies.

At the time this analysis was prepared, Caltrans and regional agencies had not yet submitted their suggested projects to be programmed. Until this occurs, the Legislature cannot gauge the initiative's potential for relieving congestion in the near term.

Environmental Streamlining Proposal Lacks Any Substance

The initiative proposes to streamline the environmental review process, but fails to provide any details as to how this will be done. The impact on project delivery cannot be assessed.

The Governor's initiative also calls for streamlining the environmental review process to facilitate more speedy delivery of transportation projects. However, the budget provides no specifics or details as to how streamlining would be achieved. The Governor's budget only directs "the Business, Transportation and Housing Agency, the California Environmental Protection Agency, and the Resources Agency to streamline California's transportation project delivery while maintaining environmental protection standards."

The lack of specifics makes it impossible for the Legislature to assess what impact this aspect of the initiative would have on project delivery. In our discussions on project delivery and environmental streamlining (in Item 2660, Department of Transportation), we recommend a number of administrative as well as legislative changes that could be adopted to improve the environmental review process and expedite project delivery.

Extending the STIP Has Merit

The Governor's initiative proposes to extend the State Transportation Improvement Program period from four to seven years. This proposal has merit and would allow more projects to be developed sooner.

The initiative proposes extending the STIP time frame from four years to seven years. This would revert the length of the STIP to what it was prior to the enactment of Chapter 622. One rationale for reducing the length of the STIP was a concern that a seven-year STIP resulted in inaccurate project cost and schedule estimates because of the difficulty of making long-term projections. In addition, a longer STIP was associated with project delays caused by changes in project scope to reflect changes in traffic conditions over time.

While these are legitimate concerns, we believe that these problems are less a result of the length of the STIP itself, and more a consequence of the length of time it takes to deliver most transportation projects. Because it often takes a long time for projects to be developed, we think a longer STIP period has merit because it provides a longer planning horizon, thereby allowing Caltrans and local agencies to begin work on complex projects that typically take over four years to deliver.

Use-It-or-Lose-It Provisions Unwarranted

The initiative proposes to apply a use-it-or-lose-it provision to the local share of federal transportation funds. Given the recent enactment of legislation intended to promote the timely use of funds by local agencies and local agencies' recent improvement in their expenditure of federal funds, further strengthening of these provisions is not warranted at this time.

The initiative also proposes a use-it-or-lose-it provision to apply to local gas tax reserves. Given the growing backlog of deferred maintenance for local streets and roads, as well as the possibility that some of these funds are obligated, we recommend that this proposal not be adopted.

The initiative contains two provisions to encourage local transportation agencies to spend their transportation funds more expeditiously. Both of these provisions would require legislation. To the extent that local agencies do not meet the deadlines set in legislation, more funds would be available for STIP programming.

Use-It-or-Lose-It Provision on Local Share of Federal Funds Not Warranted at This Time. The initiative proposes to apply a use-it-or-lose-it provision to $800 million of local agencies' federal funds. These monies are the Congestion Mitigation and Air Quality (CMAQ) funds and the Regional Surface Transportation Program (RSTP) funds. The CMAQ funds are provided to urban areas that do not meet federal clean air standards. These funds must be used on projects that reduce congestion and air pollution. The RSTP funds, on the other hand, are more flexible and can be used for roadway or transit rehabilitation as well as highway construction. Local agencies currently have a total of about $860 million in unused CMAQ and RSTP funds.

Chapter 783, already contains provisions to expedite the use of these funds. Specifically, under Chapter 783, local agencies must obligate approximately $360 million of the unexpended amount by September 30, 2000, otherwise the CTC may reprogram the amount for other projects. Under current law, neither Caltrans nor CTC has the authority to reprogram the remaining $500 million which will not be subject to the Chapter 783 provision for several years. At the time this analysis was prepared, it was not clear how the initiative would strengthen the existing timely use of funds provisions in statute. For instance, it is not clear whether it would apply a use-it-or-lose-it provision to the remaining $500 million in the current year, or alternatively, further shorten the time within which local agencies have to obligate their share of federal funds.

It is worth noting that local agencies have improved their expenditure of federal funds in the last year. Specifically, they expended 57 percent of their share of federal funds in 1998-99 compared to 40 percent in prior years. Given this improvement, the timely use of funds provisions in Chapter 783, and the recent doubling of Caltrans staff to assist local agencies with federally funded projects, we find that applying a stronger use-it-or-lose-it provision to local expenditure of federal funds is not warranted at this time.

Use-It-Or-Lose-It Provision for Local Gas Tax Revenues Should Not Be Adopted. Under current law, local governments receive about 34 percent of state gas tax revenues (at 18 cents per gallon of gasoline and diesel fuel). Local agencies use these monies to improve local streets and roads, and the state currently has no role in selecting the projects. The initiative proposes to reprogram $300 million of these gas tax monies held in reserve by local agencies, unless they show substantive progress in programming these funds by July 31, 2000. The proposal indicates that local agencies are holding more than $1.7 billion of local transportation funds in reserves. Of that amount, about $450 million are local gas tax revenues. The proposal does not explain what local agencies would be required to do by this date to demonstrate progress.

The $450 million represents the cumulative amount of unspent gas tax revenues held by all the counties and cities statewide at a specific point in time. According to local agencies, some of these funds are not reserves at all, but rather funds that have been obligated to specific projects, but have yet to be paid out. Furthermore, our review indicates that local agencies have a strong record of spending these funds in a timely manner. Statewide, local agencies have generally spent over 97 percent of their gas tax revenues annually. Finally, it is worth noting that the CTC's inventory of ten-year transportation funding needs, (prepared pursuant to SR 8 [Burton]) found that local agencies have an estimated $10.5 billion backlog in local streets and roads needs, currently growing at an annual rate of $400 million. To the extent that the initiative proposes to reprogram local gas tax funds for highways or transit, but not local streets and roads projects, this backlog would grow even larger. In view of these concerns, we recommend this proposal not be adopted.

CONDITION OF TRANSPORTATION FUNDS

California's state transportation programs are funded by a variety of sources, including special funds, federal funds, and general obligation bonds for transportation. Two special funds—the State Highway Account (SHA) and the Public Transportation Account (PTA)—provide the majority of ongoing state revenues for transportation. The SHA is by far the larger account and derives its revenues primarily from truck weight fees and the 18 cents state excise tax on gasoline and diesel fuels. Specifically, the SHA receives about 62 percent of all gas tax revenues, while the remainder go primarily to cities and counties for local streets and roads. The 2000-01 budget estimates the SHA's total resources to be $3.9 billion.

Article XIX of the State Constitution currently prohibits gas taxes and weight fees from being used to fund transit rolling stock (such as buses and rail cars or locomotives). As a result, the state has relied primarily on the PTA for such purposes. The PTA's revenues are comprised of a portion of the sales and use taxes on gasoline and diesel fuel. The 2000-01 budget estimates the PTA's total resources to be $366 million. The following section discusses the condition of these two accounts.

The SHA Cash Balance Approaching $2 Billion, But Fully Committed to Projects

The State Highway Account (SHA) balance has grown continuously since 1993-94. The balance, however, is fully committed towards projects and does not represent a reserve available for new expenditures. To the extent more projects are delivered for construction, as sought by the Governor's initiative, the SHA cash balance would decrease. However, this is unlikely to occur in the near term.

Funds in the SHA are used to support the Department of Transportation's operations, provide local assistance, and fund transportation capital outlay.

The SHA Cash Balance Approaches $2 Billion. Continuing what is now a seven-year trend, the SHA cash balance has increased in the last year. As of November 30, 1999, the cash balance in the SHA was $1.8 billion. From October 1998 through November 1999, the average daily cash balance ranged from $1.5 billion to $1.9 billion.

The SHA Funds Already Committed. It is important to keep in mind that virtually all of the SHA cash balance is already committed to the State Transportation Improvement Program (STIP) and State Highway Operation and Protection Program (SHOPP) projects, but has yet to be paid out. The balance will decline as design work is completed and projects go to construction. As of November 30, 1999 the account's total commitments exceeded the available balance by $316 million. Commitments against the cash balance include a variety of types of projects. The most significant is about $800 million which is reserved for seismic retrofit of the state's toll bridges, including the east span of the San Francisco-Bay Bridge. The other major commitments include about $400 million for rail projects and $300 million for projects off the state highway system.

Several Factors Contribute to High Cash Balance. In addition to general delays in project delivery, the cash balance in the SHA is a result of the following:

- ***The deletion of about $500 million worth of highway projects from the 1996 STIP*** to accommodate seismic retrofit improvements. Subsequent to the deletion of these projects, voters approved Proposition 192 which provided $2 billion for seismic retrofit. As a result, approximately $500 million in the SHA was not committed to projects.
- ***Delay in the seismic retrofit program***, caused in part by legal challenges to the department's original decision to design the work using private consultants.
- ***Caltrans' practice of using local agency federal funds in lieu of state funds*** to prevent the loss of federal funds spending authority in any given year. Over $500 million in the SHA can be directly attributed to this.

Legislature Authorizes Loan Program. In order to take advantage of the available cash balance in the SHA, Chapter 783, Statutes of 1999 (AB 1012, Torlakson) added a short-term loan program for local transportation agencies. Specifically, the law authorizes loans of up to $500 million whenever the SHA cash balance exceeds $400 million. Loans can be made for up to four years and can *only* be made for construction, not for design or environmental review. In order to encourage timely construction, the law requires that construction begin within six months of the date of the loan. Caltrans estimates that $200 million is currently available for loans.

Governor's Initiative Also Aims at Lowering SHA Cash Balance. The Governor's initiative seeks to make better use of the SHA cash balance through more aggressive programming. Specifically, it proposes to lower the cash reserve from $440 million to $140 million and to assume a $300 million shortfall in project delivery. This frees up an additional $600 million in programming capacity. To the extent that these projects are developed and constructed sooner, the SHA cash balance will decrease. However, as we noted in our review of the Governor's initiative, it is unlikely that newly programmaed projects will be delivered in the near term. Thus, it is unlikely that the SHA balance will shrink significantly in the foreseeable future.

Projected Shortfall in PTA

The Public Transportation Account provides a source of state funds primarily for mass transportation (including bus and rail) purposes. Our review projects a shortfall in the account of approximately $53 million over a four-year period (2000-01 through 2003-04). Beyond 2003-04, we project the shortfall to increase significantly.

In order to address the projected shortfall, we identify several options including increasing revenues or reducing expenditures. In addition, we recommend the adoption of a constitutional amendment to relax Article XIX limitations. Such an amendment would provide more flexibility in funding public transportation improvements.

The PTA: Uses and Sources of Revenue. The PTA was established by the Transportation Development Act of 1971. The purpose of the PTA is to promote the development of a public transportation infrastructure by providing a source of funds to local and state transportation agencies primarily for transit (including bus and rail) purposes.

The two main sources of revenue into the PTA are sales and use taxes on diesel fuel and gasoline. The largest revenue source is a 4.75 percent sales tax on diesel fuel that is estimated to generate about $113 million in 1999-00. The second major revenue source is a 4.75 percent sales tax on 9 cents of the state excise tax on gasoline. In 1999-00, this sales tax is estimated to generate for the PTA is about $61 million.

The PTA Primarily Supports State Transit Assistance (STA), Intercity Rail, and Transit Capital Improvements. Historically, the three largest expenditures from the PTA have been the STA program, intercity rail services, and transit capital improvement projects. In recent years, however, due to increasing expenditures for intercity rail services and STA, there has not been funding for new transit capital improvement projects.

Under current state law, the STA program has first claim on at least 50 percent of annual PTA revenues. These funds are disbursed by formula to transportation planning agencies and county transportation commissions for allocation to public transit operators. Funds may be used for operating assistance, capital acquisition and improvement, and community transit services.

The remaining funds in the PTA support various other public transportation purposes, including intercity rail service, capital improvements of transit systems, rail and mass transportation planning and support, and high speed rail development. Figure 1 summarizes the use of PTA funds in 1999-00. The figure shows that PTA expenditures for 1999-00 total about $225 million—about $46 million more than anticipated revenues of $179 million.

Figure 1

Public Transportation Account Supported Programs 1999-00

(In Millions)

	Estimated Expenditures
State Transit Assistance	$100.3
Intercity rail service	64.0
Transit capital improvements	31.2
Planning, administration, and technical services	21.7
High speed rail	3.0
Passenger rail safety	2.4
California Transportation Commission	1.2
Transportation research	1.0
Total	**$224.8**

The PTA Fund Condition: Increasing Shortfall Projected for Future Years. We recently released a report on the condition of the PTA (please see our January 2000 report, *Public Transportation Account: Options for Addressing Projected Shortfall*). In that report, we projected a funding shortfall in the PTA of about $53 million over four years (2000-01 through 2003-4), with the shortfall increasing to approximately $158 million over six years (2000-01 through 2005-06). Figure 2 summarizes the findings of our fund condition analysis.

The significant increase in the shortfall is the result of a number of factors. In particular, the costs of expanded intercity rail services are projected to increase substantially beginning in 2002-03 and these higher costs would continue through 2005-06.

Figure 2

Public Transportation Account Fund Condition 2000-01 Through 2005-06

(In Millions)

	2000-2003 Four-Year Total	2000-2005 Six-Year Total
Resources		
Sales tax on diesel	$475.4	$729.1
Sales tax on gasoline—Proposition 111	256.3	393.0
Other[a]	320.3	448.0
Totals	**$1,052.0**	**$1,570.1**
Expenditures		
State Transit Assistance	$365.8	$561.0
Support costs		
Mass transit and rail	85.1	130.5
Other[b]	258.9	395.5
Program		
Intercity rail—existing service	271.0	416.0
Intercity rail—new service	74.6	145.6
Transit capital improvement	—	—
Transfer to Toll Bridge Retrofit Account	40.0	70.0
Reserve for economic uncertainties	9.5	9.9
Totals	**$1,104.9**	**$1,728.5**
Shortfall	-$52.9	-$158.4

[a] Includes beginning reserve in 2000-01, interest, and various transfers.
[b] Includes transportation planning, administration, California Transportation Commission, rail safety, high speed rail development, and transportation research.

Shortfall Impacts Not Only Transit Capital Funds Now, But Other Programs in Future. Because of the projected shortfall in the account, there will be no PTA funds available for new transit capital projects through 2003-04. Our projections show that this trend will continue through 2005-06, meaning that the state will not be able to fund any new transit capital improvements in the 2002 STIP period. The shortfall, however, will also impact other program areas. For example, expenditures for certain programs, such as intercity rail service, would have to be curtailed.

Addressing PTA Shortfall in the Immediate Future. The primary fiscal problem the PTA faces is clear—an imbalance exists between revenues and expenditures. In our January 2000 report, we offer a number of options for reducing or eliminating the projected shortfall. The options fall into two broad categories—increasing account revenues and reducing expenditures.

Relax Article XIX Limitation. In addition, we discuss our recommendation for the relaxation of the limitation imposed by Article XIX of the State Constitution. Specifically, we recommend that the Legislature enact a constitutional amendment to permit expenditure of gas tax revenues for transit rolling stock. Doing so would provide an alternative funding source for transit rolling stock which, based on current projections, the PTA would not be able to fund.

Under Article XIX of the State Constitution, transit rolling stock (such as buses and rail cars or locomotives) is the only type of transportation capital outlay that currently cannot use the revenues generated from gasoline and diesel excise tax. Currently, the PTA funds are the only source of state funds, other than state General Fund, for transit equipment and rolling stock. The projected shortfall means that, absent other corrective actions, no state funds would be available for transit equipment or rolling stock.

Governor's Proposal Includes Additional Funds and Constitutional Amendment. As part of the budget, the Governor proposes to shift $45 million of SHA revenues (nongas tax and nonweight fee revenues that are not subject to the Article XIX limitation) to the PTA. In addition, the Governor also supports a constitutional amendment to relax the Article XIX limitation on gas excise tax revenues for transit equipment, rolling stock, and transit operations.

Long-Term Solution to PTA Shortfall. The Legislature can pursue various options in order to avert a projected shortfall in the PTA. We believe, however, that in addressing the account's financial condition, the Legislature should take a broader approach and reexamine its objectives and priorities regarding the state's role in funding public transportation. In doing so, the Legislature can determine the appropriate overall structure and level of state funding for public transportation, including the PTA, as well as appropriate allocation of state funds between state programs and those services that are provided by regional and local agencies. The Legislature should also examine the extent to which current state-funded programs, including the STA, intercity rail service, and transit capital improvements meet the Legislature's objectives and priorities in order to ensure that state funds are used most efficiently and effectively to provide mobility through public transportation.

LEGISLATIVE OVERSIGHT

Departments Disregard Legislative Directive

The transportation departments within the Business, Transportation and Housing Agency have generally disregarded legislative direction to provide program and expenditure information. The lack of information hinders the Legislature's oversight of state programs. We recommend that the Legislature withhold action on the budget of the Secretary for Business, Transportation and Housing pending submittal of previously requested supplemental reports by the various departments.

We further recommend that where a required supplemental report would provide supporting information for particular budget proposals, those proposals be denied absent the required report.

Additionally, we recommend that instead of adopting supplemental language directing departments to provide information at a future time, the Legislature disapprove any funding requests for which the departments fail to sufficiently respond during the budget hearing process to the Legislature's concerns.

In the *Supplemental Report of the 1999 Budget Act* , the Legislature directed various transportation departments within the Business, Transportation and Housing Agency to report on a number of their programs and activities. The Legislature's purpose in requesting these reports was to exercise legislative oversight by holding the departments accountable for their use of funds and staff in achieving statutory objectives and goals. Many of these reports were required to be submitted by early January 2000 in order to provide the Legislature with pertinent information as it reviews the 2000-01 budget. Figure 1 (see next page) lists the departments, reports, and their due dates as well as the status of those reports.

Reasons for Information Requirement and Nature of Information to Be Submitted. In reviewing the 1999-00 budget for transportation, the Legislature expressed concerns over the level of funding for a number of programs. It also was concerned with the level of activities being carried out under these programs. As a result, the Legislature adopted numerous supplemental reporting requirements directing departments to report on the funding levels, statutory requirements, and workload of a number of programs.

Figure 1

Transportation Departments
1999-00 Supplemental Report Requirements Status[a]

	Due Date	Status
Department of Transportation (Caltrans)		
• Bridge scour	1/10/2000	Received
• Pesticides	10/1/1999	Not received
• Highway beautification	1/10/2000	Not received
• Traffic operations strategies	1/1/2000	Not received
• San Joaquin route	11/1/1999	Not received
California Highway Patrol		
• El Protector	1/10/2000	Not received
• Protective services	9/1/1999	Not received
• Cellular—911	12/1/1999	Not received
Department of Motor Vehicles		
• Database redevelopment	12/1/1999	Not received

[a] As of January 31, 2000.

For example, the Department of Motor Vehicles (DMV) is required to report on its progress in replacing its major databases, a substantial undertaking by the department which has been repeatedly revised and delayed. The report is to provide an update on the estimated costs and completion dates for the replacement effort, as well as explain changes to those costs and dates.

Similarly, the Department of Transportation (Caltrans) is required to report on the status and funding opportunities for transportation projects through traffic operations strategies such as direct freeway access ramps, movable barriers to channel highway traffic, etc.

Departments Generally Disregard Legislative Directive; Legislature's Program Oversight Reduced. As Figure 1 shows, at the time this analysis was prepared, most of the required reports had not been submitted. The failure to meet the reporting requirements shows a general disregard of legislative directive on the part of the administration. Additionally, the lack of information hinders the Legislature's ability to evaluate the departments' budget needs, assess their performance, and hold the departments accountable.

Reports Submitted Do Not Respond to Directive. As Figure 1 shows, only one report has been submitted (by Caltrans). In addition, the California Highway Patrol (CHP) submitted a response regarding the requirement for a report on its El Protector program. The response advised the Legislature that CHP would not be providing the report because it was not collecting the necessary data. As a consequence, while CHP responded on time, it provided no useful information to assist the Legislature. The CHP response raises an additional concern for the Legislature. Specifically, the department did not advise the Legislature that it was not collecting the data, or express any concerns about its ability to provide the information when the reporting requirement was discussed at last year's budget hearings. This gave the impression that the information would be forthcoming.

Analyst Recommendations. It is important that the Legislature have a means of obtaining information it deems necessary to make policy and budget decisions. In view of the administration's general lack of regard for legislative direction to provide information in these program areas, we recommend the Legislature do the following:

- ***Withhold action on the budget of the Secretary for Business, Transportation and Housing until the reports due from its constituent departments are submitted to the Legislature as required by previously adopted supplemental report language.***
- ***Disapprove any funding proposals in the 2000-01 budget where a required supplemental report would have provided information for the evaluation of the proposal.*** For instance, the 2000-01 budget includes an augmentation request for DMV to implement a recently extended insurance verification program. The department has failed to provide a supplemental report, due in April 1999, evaluating the program's impact and cost-effectiveness. Without this information, it is difficult for the Legislature to assess whether the department's implementation of the program is satisfactory, and whether the proposed administrative costs are warranted.
- ***Disapprove funding for questionable requests lacking adequate justification instead of adopting supplemental report language.*** In recent years, the Legislature has adopted supplemental report requirements in order to allow departments to proceed with proposed expenditures and activities even though the effectiveness

of these proposals are questionable at the time of budget hearings. In doing so, the Legislature assumes that the information to be provided in the subsequent report would enable the Legislature to better assess the merits of the administration's programs and efforts. Because experience shows that the departments are not inclined to comply with the reporting requirements, we recommend that rather than adopting supplemental language directing such reports, the Legislature disapprove any expenditure requests that it finds not adequately justified or questionable in terms of their effectiveness to achieve statutory goals and priorities. Doing so may induce the departments to be more responsive and provide useful information that enables the Legislature to exercise its oversight role more effectively.

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 systems. These responsibilities are carried out in five programs. Three programs—Highway Transportation, Mass Transportation, and Aeronautics—concentrate on specific transportation modes. Transportation Planning seeks to improve the planning for all travel modes and administration encompasses management of the department.

The budget proposes expenditures of $7.5 billion by Caltrans in 2000-01. This is about $464 million, or 7 percent, more than estimated current-year expenditures. This does not reflect the Governor's initiative related to increased programming of transportation projects in the 2000 State Transportation Improvement Plan (STIP). It does, however, include increased one-time expenditures for rail and ferries.

HIGHWAY TRANSPORTATION

Budget Proposes Moderate Increase in Highway Program

The budget proposes expenditures of $6.5 billion for the highway transportation program, about $367 million, or 6 percent, more than estimated current-year expenditures. Highway transportation comprises approximately 87 percent of the department's proposed budget.

Of the total expenditures in the department's budget, $6.5 billion, is for the Highway Transportation program. This is an increase of $367 million, or 6 percent, over estimated current-year expenditures. The proposed increase is primarily in capital outlay expenditures for highway construction.

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

As shown in Figure 1, Caltrans expects that state funds would support about $2.8 billion (43 percent) of highway program expenditures. Federal funds would fund about $2.9 billion (43 percent) of the program, while the remaining $866 million (13 percent) would be paid through reimbursements, primarily from local governments.

Figure 1

Department of Transportation
Highway Transportation Budget Summary

1998-99 Through 2000-01
(Dollars in Millions)

Element Requirements	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Percent Change From 1999-00
Capital outlay support	$930.0	$980.1	$962.3	-1.8%
Capital outlay projects	2,031.4	2,840.7	3,309.2	16.5
State-local partnership	93.5	100.0	40.0	-60.0
Local assistance	594.4	1,168.1	1,115.2	-4.5
Program development	56.7	98.6	101.7	3.1
Legal	90.4	62.5	63.2	1.0
Operations	129.7	131.2	139.1	6.0
Maintenance	673.9	763.9	782.0	2.4
Totals	**$4,600.0**	**$6,145.3**	**$6,512.6**	**6.0%**
State funds	*$2,437.2*	*$2,658.4*	*$2,794.5*	*5.1%*
Federal funds	*1,819.1*	*2,370.6*	*2,851.9*	*20.3*
Reimbursements	*343.7*	*1,116.3*	*866.2*	*-22.4*

Capital Outlay Support Request Will Be Amended

We withhold recommendation on $962 million and 10,898 personnel-years (PYs) of staff to deliver projects in the 2000 State Transportation Improvement Program (STIP) because the California Transportation Commission plans to adopt the 2000 STIP in July 2000 to significantly increase the number of projects programmed in the STIP, as part of the administration's proposal. Caltrans indicates that it will revise its capital outlay support request in May to accommodate the anticipated change in workload.

Withhold Recommendation on Capital Outlay Support. The budget proposes $962 million to fund capital outlay support, a 1.8 percent decrease from the current-year's estimated expenditures. The decrease is due largely to a reduction in capital outlay work for storm water cleanup. The department's *overall* expenditures related to storm water are proposed to increase substantially in the budget year. However, these expenditures will be primarily in the maintenance, legal, and administration programs, rather than capital outlay support.

Caltrans determines its capital outlay support staff request on the basis of workload in the STIP. In view of the Governor's proposal to accelerate $3.6 billion in programming capacity to the 2000 STIP, Caltrans is currently working, in coordination with regional transportation planning agencies (RTPAs), to identify new projects for programming. At the time this analysis was prepared, Caltrans was unable to estimate the total number and value of projects that would be programmed in July 2000. Under the new schedule, Caltrans and RTPAs will submit their revised STIP programming proposals by June for adoption in July. In conjunction with this effort, the administration will make a revised budget request for capital outlay support in the May revision of the budget. Pending the receipt of that revised workload request, we withhold recommendation on the department's capital outlay support budget.

Bridge Seismic Retrofit Program Relatively on Schedule; Toll Bridge Repairs Delayed

Phase 1 of the highway bridge seismic retrofit program is 99 percent complete, with work on the remaining two bridges under construction. Phase 2 is 96 percent complete; of the remaining projects, one-half are in the construction phase, and the other half under design. The department currently estimates that Phase 1 will be completed by March 2000, while most of Phase 2 will be completed by the end of 2005. Seismic retrofit of the state-owned toll bridges has been delayed on three of the seven bridges and is now scheduled to be completed in 2006.

Caltrans inspects all state and local bridges at least once every two years. Since 1971, when the Sylmar earthquake struck the Los Angeles area, Caltrans has been engaged in an ongoing bridge retrofit program. The retrofit program involves a variety of different improvements, depending on the needs of the particular structure. The improvements include strengthening the columns of existing bridges by encircling certain columns with a steel casing, adding pilings to better anchor the footings to the ground, and enlarging the size of the hinges that connect sections of bridge decks to prevent them from separating during seismic activity.

Following the 1994 Northridge earthquake, Caltrans expanded its seismic retrofit program for state highway bridges, creating a Phase 1 and a Phase 2 program. Phase 1 includes 1,039 bridges identified for strengthening after the 1989 Loma Prieta quake at a cost of $815 million, as shown in Figure 2. As of January 2000, 1,037 of those projects were completed and Caltrans anticipates completing retrofit of the last two bridges in March 2000. Phase 2 consists of an additional 1,155 bridges that were identified for strengthening following the 1994 Northridge earthquake. To date, Caltrans has completed the work on 1,120 of the Phase 2 bridges and estimates total Phase 2 costs to be $1.05 billion. Caltrans estimates that with the exception of one or two bridges (with very complex design work), all Phase 2 projects will be completed by the end of 2005.

Figure 2

Highway Seismic Retrofit Program Scope and Progress

As of January 2000
(Dollars in Millions)

	Number of Bridges	
	Phase 1	**Phase 2**
Retrofit construction complete	1,037	1,120
Under contract for construction	2	11
Design not complete	—	24
Totals	**1,039**	**1,155**
Estimated construction cost	$815	$1,050
Construction complete target	2000	2005

Caltrans is also currently retrofitting seven of the state's toll bridges for seismic safety at an estimated cost of $2.6 billion, as shown in Figure 3. Replacement of the east span of the Bay Bridge is the largest cost component, estimated at $1.3 billion. Caltrans currently estimates this to be completed in summer 2005, delayed from an original schedule of fall 2004. Caltrans reports the delay to be partly due to the United States Navy's refusal to grant an encroachment permit to drill on Yerba Buena Island. With respect to the west span of the Bay Bridge, the department estimates that construction will be completed in summer 2006, also one year later than planned, due to environmental litigation and traffic conditions requiring a longer construction time. Additionally, Caltrans reports one year delays (from last year's schedule) in completing the Richmond-San Rafael and Vincent Thomas bridges.

Figure 3

Toll Bridge Seismic Retrofit Program

(Dollars in Millions)

Bridge	Target Completion Date	Cost
San Francisco-Oakland Bay Bridge		
New east span	2005	$1,285
West span	2006	492
Subtotal		($1,777)
Benicia-Martinez	2001	130
Carquinez—eastbound	2000	89
Richmond-San Rafael	2004	335
San Diego Coronado	2002	93
San Mateo-Hayward	2000	149
Vincent Thomas	2000	45
Total		**$2,618**

Budget Request for Storm Water Management Premature

A new statewide National Pollutant Discharge Elimination System (NPDES) permit for storm water discharges requires Caltrans to conduct various activities, including the development of an inventory of approximately 150,000 storm water discharge locations. A plan to implement the permit has not yet been approved by the State Water Resources Control Board (SWRCB). We recommend budget bill language to provide $41 million for compliance with the NPDES permit contingent upon approval of the plan by SWRCB.

The federal Clean Water Act requires that the discharge of pollutants into waters of the United States from any point source comply with a

NPDES permit. Pollutant discharges from Caltrans facilities include various metals, petroleum products, pesticides, and general litter. In July 1999, Caltrans received a statewide NPDES permit from the SWRCB for storm water discharges from the state highway system and any other Caltrans facility. Prior to the statewide permit, Caltrans had nine regional permits that governed activities in its 12 districts. In order to comply with the statewide permit, Caltrans is required to submit a statewide plan for implementation. This plan has been submitted to SWRCB, but has not yet been approved.

Requirements of Statewide Permit Extensive. The permit requires Caltrans to undertake a number of new activities including the following:

- A plan to coordinate with local agencies on storm water management.
- A program to control landscape vegetation that minimizes the use of chemicals.
- A program to detect and investigate illegal dumping or discharge of pollutants.
- Inventory of approximately 150,000 discharge locations.
- Staff training and public education.
- Program evaluation and monitoring.

The permit also reflects the U.S. Environmental Protection Agency's new requirement that discharges from storm drain systems must not violate water quality standards. According to Caltrans, discharges from its facilities (and those owned and operated by local municipalities) *regularly* contribute to violations of these standards. Furthermore, constructing and operating treatment facilities to purify this water would cost billions of dollars. As the first major agency in the state faced with this new requirement (it also applies to all municipalities with populations greater than 10,000), the permit also requires Caltrans to conduct extensive research into how to comply with the new requirement.

Budget Proposal Is Premature. The budget proposes $41 million and 150 PYs to fund compliance with the NPDES permit. This is over five times what the department is spending on compliance in the current year under the various regional permits. While we concur with the department's appraisal that the new permit will likely require a higher level of funding, we find the proposal to be premature. This is because Caltrans has not yet received approval for the storm water management plan which details how the department will implement the permit. The SWRCB indicated that the plan Caltrans submitted in November 1999 is unsatisfactory and will require substantial revision. As a result, the Legislature is unable to evaluate whether the proposed $41 million is necessary (or adequate) to implement the plan and comply with the permit. Under these circumstances, we recommend budget bill language to make the proposed $41 million available only upon the plan's approval. Specifically, we recommend the following budget bill language be adopted:

> The department shall not expend any of the $41 million appropriated in this item for compliance with the statewide National Pollutant Discharge Elimination System permit until a management and implementation plan has been approved by the State Water Resources Control Board. Any funds not encumbered to comply with the management and implementation plan shall revert to the State Highway Account on June 30, 2001.

PROJECT DELIVERY

Background

Depending on the complexity of a transportation project, it is not uncommon to take ten years or more to prepare the project for construction. As congestion on the state's highways and roads grows worse each year, Caltrans and local agencies have been under increased pressure to speed up project delivery. Timely delivery of transportation projects is important for two reasons. First, delay inconveniences the traveling public as congestion grows worse over time. Second, delay in project delivery is an inefficient use of tax revenues as it results in higher costs due to the extra time spent on projects, as well as inflationary pressure on construction material, right of way acquisition, and labor costs.

Transportation projects typically involve the following phases of work: identify project need, scope, and schedule; program the project in the STIP or State Highway Operation and Protection Program (SHOPP) (for projects using state funds); and complete environmental review, design, and right of way acquisition. A project is considered "delivered" when it is advertised for construction (in other words, bids are sought for its construction). According to Caltrans, project development takes between two to six years on a typical SHOPP project, such as rehabilitation of an existing roadway, and between four to eight years on a typical STIP project, such as adding a high occupancy vehicle (HOV) lane to an existing freeway. Project advertisement and construction typically add between one to three years to this process, resulting in a total delivery time (from initial planning to ribbon cutting) of between 3 to 11 years.

In the current year, Caltrans has 10,992 PYs to conduct project development work and construction oversight.

Caltrans and Local Agencies Share Responsibility for Project Delivery. The responsibility for the delivery of transportation projects in California is shared between Caltrans and local transportation agencies. In general, Caltrans is responsible for developing capital outlay improvement projects on the state highway system, while local agencies deliver projects that are off the state highway system, such as local street and road rehabilitation or transit improvement projects. There are several exceptions to this general rule, however. For instance, Caltrans occasionally delivers projects off the state highway system for local agencies on a reimbursement basis. Additionally, 16 counties with special sales taxes for transportation purposes, known collectively as the "self-help counties," deliver projects on the state highway system using local sales tax revenues to fund the projects.

Project Delivery Has Been Concern of Legislature. The Legislature has taken a number of steps to improve project delivery in recent years. In addition to making statutory changes, discussed below, the Legislature requires that the Legislative Analyst include annually in the *Analysis* an assessment of the department's progress in delivering projects as scheduled in the STIP.

In this *Analysis*, we go beyond our annual review of how well Caltrans delivered its planned projects, and examine the bottlenecks and inefficiencies in the current project delivery process. We find that some of these bottlenecks are a result of state or federal law and would therefore require statutory changes, while others are simply a result of Caltrans' way of doing business and could be alleviated relatively easily.

In this section, we discuss:

- Caltrans' project delivery record for 1998-99.
- Local agencies' delivery of federally funded projects.
- Actions taken in the current year to address project delivery.
- Vacancies in Caltrans' project delivery staff.
- Caltrans project management practices that also affect project delivery.
- Opportunities to increase flexibility in managing state and federal funds which if taken would enhance project delivery.

We provide a summary of our recommendations related to project delivery in Figure 4. Our detailed discussion of each of these recommendations follows the figure.

Environmental review also has an important impact on project delivery. Our review of environmental streamlining opportunities is discussed separately following this section.

Figure 4

**Project Delivery
LAO Findings and Recommendations**

Local Agencies Underspend Their Share of Federal Funds

Recommendations

- Caltrans should report at budget hearings on:
  - — Status of user-friendly local assistance manual.

Caltrans Unable to Fill Project Delivery Positions

Recommendations

- Caltrans should report at budget hearings on:
  - — The capital outlay support and local assistance vacancy rate.
  - — Reasons why positions are difficult to fill.
  - — Steps being taken to fill positions.

Caltrans Needs More Flexibility in Managing State and Federal Funds

Recommendations

- Enact legislation to authorize pooling and swapping of federal funds for state funds.
- Enact legislation to make urban counties eligible to receive advances on their county shares of State Transportation Improvement Program funding.
- Caltrans should report at budget hearings on whether the state satisfies Federal Highway Administration requirements that would allow the state to be reimbursed for right-of-way work done prior to approval of the environmental document.
- Caltrans should establish, in coordination with the California Transportation Commission, criteria for projects that would be good candidates for beginning right-of-way acquisition prior to final approval of the environmental document.

Caltrans Project Delivery in 1998-99: Performance Improved

Caltrans delivered over 90 percent of projects planned for delivery in 1998-99. Additionally, the department delivered many projects that were planned for delivery in future years. As a result, the department spent a record $2.1 billion on transportation projects in fiscal year 1998-99.

Caltrans Delivered Vast Majority of Planned Projects. Caltrans measures its project delivery performance by comparing actual delivery with planned delivery. The department showed a strong project delivery performance in 1998-99, delivering 91 percent of STIP and SHOPP projects that were *planned* for delivery, compared to about 89 percent in 1997-98.

The performance record improves considerably when projects that were advanced from future years are included. Specifically, Caltrans delivered 120 percent of its planned delivery, compared to 103 percent of its planned level in 1997-98. As shown in Figure 5, the department delivered 60 STIP projects, comprised mostly of projects that were planned for delivery as well as some that were advanced from future years. The department delivered 240 SHOPP projects, including 172 projects that were planned for delivery in 1998-99 and 68 that were advanced from future years.

Figure 5

Caltrans Project Delivery

1998-99

Program	Planned for Delivery	Projects Delivered: Planned Projects	Projects Delivered: Advanced Projects	Projects Delivered: Total	Delivery as Percentage of Planned
STIP[a]	59	54	6	60	102%
SHOPP[b]	190	172	68	240	126
Totals	**249**	**226**	**74**	**300**	**120%**

[a] State Transportation Improvement Project.
[b] State Highway Operation and Protection Program.

Caltrans Spent Over $2 Billion on Transportation Projects. In terms of expenditures, Caltrans delivered a total of $2.1 billion worth of projects. Of this amount, approximately $1.3 billion was spent on STIP and SHOPP projects, while the remaining $813 million was spent on seismic retrofit projects, emergency work and minor projects (SHOPP-type projects with a total cost under $750,000). As Figure 6 shows, the department's STIP

Figure 6

Caltrans Project Delivery by Expenditure 1998-99

(Dollars in Millions)

Program	Actual Costs of Projects Delivered	Planned Cost of Projects to Be Delivered	Actual Cost as a Percentage of Planned Cost
STIP[a]	$379	$375	101%
SHOPP[b]	951	766	124
Totals	**$1,330**	**$1,141**	**117%**

[a] State Transportation Improvement Project.
[b] State Highway Operation and Protection Program.

and SHOPP expenditures were 117 percent of *planned* expenditures for 1998-99. This was due primarily to the department's decision to advance 68 SHOPP projects from future years. Overall, the department's performance exceeded the California Transportation Commission's (CTC) project delivery goal.

Local Delivery of Federally Funded Projects

For a variety of reasons, local agencies have underspent their share of federal funds in recent years. Although they improved in 1998-99, Caltrans still had to spend about $350 million of the local share of federal funds to prevent the state's permanent loss of these funds. This causes the cash balance in the State Highway Account to grow and may delay projects due to increased requirements attached to federal funds.

Local Delivery of Federally Funded Projects Lags. Under the federal Transportation Equity Act for the 21st Century (TEA-21), which covers the period from 1998 to 2003, local agencies receive approximately 60 percent more in federal funds than under the prior federal transportation act. As discussed in our *1999-00 Analysis* (please see page A-14), spending this increased amount is a challenge to local agencies, particularly those that are less accustomed to the myriad requirements attached to federal funds. For example, federal funds require audits prior to contracting out projects and compliance with various other requirements that local agencies would not otherwise confront. As currently implemented, these additional requirements can add several years to the length of a project. As a result, local agencies have tended to postpone the use of federal funds, preferring to spend state funds or local funds first. By October 1999, local agencies had a significant backlog of unspent federal funds. This backlog has accumulated over several years, as local agencies have typically spent about 50 percent of their annual federal funds.

Caltrans Does Not Expect Loss of Federal Funds in 2000. In order to expend federal funds, the state is provided federal spending authority (known as obligation authority or OA) annually by the Federal Highway Administration (FHWA). This authority expires at the end of each year and is split between Caltrans and local agencies. To prevent the state's loss of federal spending authority, whenever local agencies expect to spend less than their share, Caltrans has used the remaining local share of spending authority on STIP or SHOPP projects that are eligible to use federal dollars. Subsequently, Caltrans would repay local agencies when they have projects ready to deliver. Local agencies improved their overall expenditure of federal funds from 40 percent in 1997-98 to 57 percent in 1998-99. Nevertheless, Caltrans had to use about $350 million of the unexpended local share of federal spending authority. Under Chapter 783, Statutes of 1999 (AB 1012, Torlakson), discussed below, Caltrans may continue this practice, but is only required to repay the local agencies' share if they have projects ready to deliver within a specified time limit.

California has never lost its federal funds spending authority and, according to Caltrans, is unlikely to do so this year. This is because Caltrans has projects available to use up about $300 million in local agency spending authority. Nevertheless, it is critical that local agencies continue to improve their expenditure of federal funds to reduce this risk in the future.

Local Delivery Shortfall Drives Up State Highway Account (SHA) Cash Balance and May Delay STIP and SHOPP Projects. Some of the projects Caltrans uses to absorb the local share of federal funds were originally to be paid for with state funds exclusively. When Caltrans uses the local share of federal funds in lieu of state funds, this has the effect of freeing up state funds and ultimately increasing the cash balance in the SHA (discussed in greater detail in the Crosscutting Issues section of this chapter). Approximately $500 million in the current SHA cash balance (of $1.8 billion) can be attributed to this practice. In addition, using federal instead of state funds on these projects may cause project delays due to the additional requirements attached to federal funds. This problem may be addressed in part by increasing the flexibility by which state and federal funds are managed, discussed in greater detail below.

Current-Year Actions to Speed Up Project Delivery

The Legislature took steps in 1999 to improve project delivery and experiment with different ways of designing and constructing projects. We recommend that the department report at hearings on the status of a user-friendly local assistance manual.

In 1999-00, a number of statutory and budgetary actions were taken to speed up project delivery by Caltrans as well as by local agencies. In particular, two laws were enacted with the objective of accelerating the delivery of transportation projects in California.

Design-Sequencing Legislation Should Provide Lessons to Increase Project Delivery. Chapter 378, Statutes of 1999 (AB 405, Knox) authorizes Caltrans to designate six design-sequence projects to determine if this method of developing projects offers potential for faster delivery and cost savings. Under design-sequencing, construction can begin on a particular *phase* of a project once design for that phase is complete. Under Caltrans' standard practices, construction cannot begin until design has been completed for the *entire* project. Chapter 378 also requires that the department report to the Legislature annually on the progress of the projects and submit a final report evaluating the pilot project. Caltrans staff has selected 12 projects as candidates and will make a final recommendation to the Director by March 2000.

Assembly Bill 1012 Addresses Cash Balance and Local Agency Delivery. Chapter 783 contains many provisions designed to expedite project delivery. Figure 7 summarizes the law's key provisions. In particular, Chapter 783 authorizes the use of SHA cash balances for short-term loans to local transportation agencies to fund transportation projects. Although the loan program will make these funds available for immediate use on local transportation projects, we think that the SHA cash balance will likely remain high in the short term. This is because many local agencies are not spending their current share of state or federal funds, and thus would be unlikely to seek interest-bearing loans for their projects.

Figure 7

Expediting Project Delivery

Key Provisions
Chapter 783, Statutes of 1999 (AB 1012, Torlakson)

- Establishes four advisory teams statewide to report on ways to accelerate project delivery.
- Establishes a use-it-or-lose-it provision for federal Regional Surface Transportation Program funds and Congestion Mitigation and Air Quality funds.
- Requires regional transportation planning agencies to notify Caltrans and the California Transportation Commission (CTC) of the projected amount of federal funds that the agency intends to use each year, along with a list of the projects to be funded. Authorizes Caltrans to redistribute spending authority that will not be used to other projects.
- Expands the State Transportation Improvement Program by adding an "advance project development element" for environmental review and project design work.
- Authorizes CTC to make loans from the State Highway Account for local transportation projects.

Chapter 783 also imposes timely use of funds provisions on the two major categories of federal funds that local agencies have had difficulty spending—Regional Surface Transportation Program (RSTP) and Congestion Mitigation and Air Quality (CMAQ) (the same federal funds targeted in the Governor's Transportation 2000 initiative). Specifically, the law makes these federal funds available to local agencies for three years; if a region has not obligated the funds within that period, Caltrans is authorized to redirect them to other state and local projects that are ready for construction. This use-it-or-lose-it provision is designed to increase local agencies' annual expenditure of federal funds in order to ensure that the state uses all of its federal spending authority each year.

The Governor's budget proposes more stringent use-it-or-lose-it provisions in order to put even greater pressure on local agencies to spend these funds. We find that this proposal is unwarranted given the improvement in expenditure of these funds in 1998-99 by local agencies, as well as the substantial increase in Caltrans staff to provide assistance to local agencies on federally-funded projects. (Please see the Crosscutting Issues section of this chapter for further discussion of the Governor's proposal.)

Urgent Need for User-Friendly Local Assistance Manual. One factor that contributes to local agencies' slow expenditure of federal funds is the complexity of the guidelines associated with their use. Although Caltrans has a manual to help guide local agencies through the federal funding process, the current manual is perceived by many to be far too cumbersome to provide meaningful assistance. We understand that the department is working on the development of a more concise, user-friendly manual. In order to ensure that this task remains a top priority, we recommend that the department report at budget hearings on the status of this effort, the extent to which Caltrans has coordinated its efforts with local agencies, and the target date for completion.

Caltrans Unable to Fill Project Delivery Positions

We recommend that the department report at budget hearings on capital outlay support and local assistance vacancies and the department's strategies to fill them.

In the current year, Caltrans is authorized 10,992 PYs for project delivery and construction oversight. This staffing level is estimated by Caltrans as necessary to deliver projects currently programmed in the STIP and SHOPP. Accordingly, the inability to hire and maintain this level of staff could have an adverse impact on Caltrans' project delivery. Furthermore, due to a constitutional restriction on contracting out, the department cannot seek assistance from the private sector to deliver transportation projects on time to meet project schedules.

Vacancies in Capital Outlay Support. According to Caltrans, the department has had difficulty hiring capital outlay support staff due to a lack of qualified applicants and higher salaries offered by the private sector. As of January 12 , 2000, the department reported a 9 percent vacancy rate in capital outlay support positions. In particular, the department reported difficulty in hiring electrical and traffic engineers due to a combination of lack of qualified applicants and an inability to compete with private sector salaries.

Vacancies in Local Assistance. Additionally, Caltrans reported an overall 30 percent vacancy rate in the local assistance program. Local assistance staff play a key role in local agency project delivery. For instance, they are responsible for processing requests for federal funds and reviewing local agencies' documents to certify that projects are designed in accordance with federal guidelines. The 1999-00 budget contained an increase of 67 PYs due to the increased workload that resulted from increased federal funds. In addition, in response to local agencies' slow expenditure of federal funds, the 1999-00 budget contained 117 *new* positions to provide extra assistance and training to local agencies on the various requirements associated with federal funds. As of December 13, 1999, Caltrans had filled less than half of these positions. To the extent that these positions, as well as the other vacancies in local assistance, are necessary to meet existing local assistance project schedules, local assistance projects will be delayed.

Recommendation. In order to hold Caltrans accountable for filling its capital outlay support and local assistance positions, we recommend that the department report at budget hearings on: (1) the vacancy level in capital outlay support and local assistance, (2) reasons why these positions are difficult to fill, and (3) the steps the department is taking to address the vacancies.

Caltrans' Ability to Deliver Projects May Be Hampered by Project Management Practices

Caltrans' use of project management is hampered by project managers being assigned too many projects and given too little authority over key aspects of the project.

Project management, a style of managing projects in which one individual is held accountable for the project from start to finish, is widely recognized both in the private and public sectors as the preferred way of delivering transportation projects. The key ingredient in project management is accountability; typically, a single manager is held accountable for the cost and schedule of a project. However, in order for project management to work successfully, this level of responsibility must also be accompanied by substantial *decision-making authority*. At Caltrans, project managers are held responsible for keeping projects on schedule and within budget, but they are seriously limited in several ways:

- First, some project managers are responsible for too many projects to be able to do anything other than react to short-term issues. While the number of projects assigned to a project manager varies according to the complexity of the project (for example, one or two for large complex projects) our review found that often, project managers are responsible for between 20 to 30 projects. By contrast, project managers in the self-help counties, known for their speedy project delivery, are often responsible for as few as three to five projects at any one time. When project managers are assigned too many projects, they cannot be proactive or devote substantive attention to any one project.

- Second, Caltrans project managers typically do not have authority over the staff who conduct work on various critical aspects of the projects (for example, environmental reviews or right-of-way acquisitions). Thus, the ability of a project manager to deliver a project depends on the performance of staff over which he or she has little substantive leverage.
- Third, Caltrans project managers have limited ability to take calculated risks, such as beginning design or right-of-way acquisition prior to the final approval of the environmental document, due to the use of federal funds on most projects. By contrast, project managers at self-help counties have the ability to take such risks.

Additionally, because of the constitutional restriction against contracting out, Caltrans project managers have less flexibility to meet project deadlines than project managers in self-help counties. For example, a project manager in a self-help county might decide to contract out the environmental review of a project due to its specialized nature; Caltrans project managers typically do not have this option.

For all of these reasons, the effectiveness of project management at Caltrans is limited in comparison with local self-help counties. We believe it is important for the Legislature to keep these limitations in mind when considering measures that would shift responsibility for project delivery from local agencies to Caltrans.

Caltrans Needs More Flexibility in Managing State and Federal Money

We find that project delivery could be improved by increasing the flexibility by which state and federal funds are managed. Specifically, we recommend the enactment of legislation to allow Caltrans and local agencies to "swap and pool" federal funds. Additionally, we recommend relaxing the eligibility criteria for "county share advances" to ensure full programming of state transportation funds. Finally, we recommend that Caltrans (1) report to the Legislature on whether the state satisfies a federal requirement that would allow right-of-way acquisitions to be reimbursed prior to approval of the final environmental document and (2) develop criteria for projects that would be suitable for this purpose.

Caltrans and Local Agencies Should Be Authorized to Exchange State Funds for Federal Funds. Additional flexibility in state law is needed in order to enable Caltrans and local agencies to move federal funds from one project to another to ensure full expenditure of federal funds and minimize the delay and inconvenience associated with their use. Under the rural exchange program, local agencies in areas with populations below 200,000 can swap their share of federal funds for state funds. However, current state law does not allow more urbanized areas to participate in similar exchanges. Nor does current state law allow Caltrans to pool federal funds from different counties so that the burden associated with federal funds is consolidated on several large projects rather than on many smaller ones. Given that the use of federal funds entails substantial additional requirements that add to the project delivery time line, Caltrans should have the flexibility to target federal funds on the largest projects.

Pooling Federal Funds Could Free Up Valuable State Funds for State's High-Priority Projects. Allowing Caltrans to pool and swap federal funds would ensure that the extra work and time associated with the use of *federal* funds is limited to fewer projects. Additionally, it would give Caltrans greater ability to target *state* resources on those projects which would benefit the most from them.

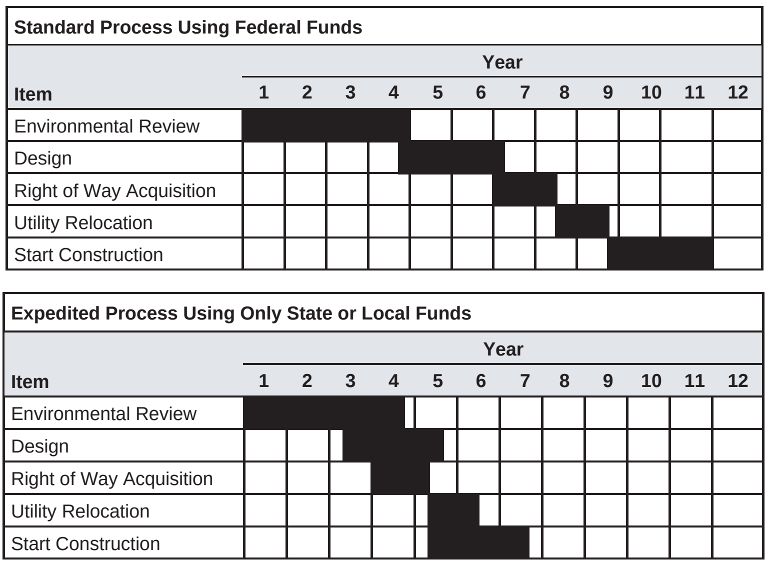
One significant advantage of funding projects exclusively with state (and local) funds, as opposed to using federal funds, is the ability to conduct design or purchase right of way before final environmental documents are approved. Typically this cannot be done when federal funds are used in a project. This is because FHWA requirements make it difficult to be reimbursed for final design or right-of-way acquisition done prior to approval of the final environmental document.

Based on conversations with Caltrans and local agencies, we find that the use of federal funds can add several years to a project. Figure 8 (see next page) illustrates, for instance, the substantial time savings achievable when no federal funds are involved. While this figure is based on one particular project and the time savings are likely to vary depending on the project, it illustrates the many phases of a project that can be done concurrently when not using federal funds. Recognizing the substantial time savings that could be realized, Caltrans is funding the seismic retrofit of the San Francisco-Oakland Bay Bridge and the Carquinez Bridge exclusively with state funds. According to Caltrans, this strategy has likely expedited the delivery of these projects by at least one year.

Recommend Restrictions on County Share Advances Be Removed. One option to help expedite the use of the SHA funds is to broaden the eligibility criteria for STIP advances. Under current law, the regional share of the STIP is divided into county shares based on population and lane miles. Most counties do not program the full amount of their share for a variety of reasons, including concern about cost overruns or a desire to set aside funds for a costly project in the future. As of December 1999, 50 counties had left about $615 million of STIP funds unprogrammed. By contrast, only eight counties had fully expended their share of funding. The CTC is authorized to advance the shares of county funds that are on reserve and loan them to counties that have exhausted their share and identified projects in need of funding. Thus, advances can increase the funds available to a county without the interest costs of a loan and put SHA funds to more timely use. The CTC anticipates programming about $300 million of these reserves over the next several months, leaving a balance of about $315 million unprogrammed.

Figure 8

Length of Time for Project Delivery[a]
Federal Funds Versus Non-Federal Funds



[a] Based on one highway project in Contra Costa County.

Current law limits the use of advances in several important respects:

- Advances may only be granted for single projects.
- Advances may only be given to counties in regions with populations below one million.

Limiting advances to a single project is problematic for rural counties which often have many small projects that could make use of advances, rather than one large project. Limiting advances to counties with populations below one million excludes 18 counties with about 80 percent of the state's population—the counties where traffic congestion is worst. The restriction was originally intended to prevent urban counties from requesting advances for costly projects that would crowd out projects of smaller, rural counties. While this is a potential risk, we believe that criteria could be developed to address this potential inequity.

In its 1999 annual report, the CTC proposes lifting or modifying these restrictions to permit greater use of advances in order to allow for fuller programming of state transportation funds. We think such changes have merit. Accordingly, we recommend that the Legislature enact legislation to remove these restrictions on county share advances in order to promote the efficient use of transportation funding.

Recommend That Caltrans Report to Legislature on Beginning Right-of-Way Activities Prior to Final Environmental Document. Given that most projects will require the use of federal funds, it is worth noting that recent changes in federal regulations provide an opportunity for Caltrans to begin more right-of-way acquisition prior to final approval of the environmental document. Specifically, FHWA recently revised its policy to allow acquisition to begin prior to the final environmental document as long as the purchase of property does not bias the alternatives under consideration. The new policy allows Caltrans to be reimbursed for the cost of the property acquisition, but not all the associated support costs except under certain conditions. Specifically, if the state can certify that it has a mandatory land use, environmental and transportation planning process, and the Governor certifies that the acquisition is consistent with state plans, then it can qualify for full reimbursement. We recommend that Caltrans report at budget hearings as to whether California satisfies this planning requirement. We also recommend that Caltrans develop, in coordination with the CTC, criteria for projects that would be good candidates for beginning right-of-way acquisition prior to final approval of the environmental document.

Environmental Streamlining Opportunities

Most project delay occurs during the environmental phase, particularly on large projects. As such, efforts to expedite project delivery should focus on streamlining the environmental review process. In this section, we discuss the major causes of delay in the environmental review process. We make a number of recommendations for administrative and statutory changes that would streamline the process *without* compromising the integrity or level of the environmental review. Our recommendations are summarized in Figure 9, and discussed in detail below.

Figure 9

Environmental Streamlining
LAO Findings and Recommendations

Resource Agencies Delay in Responding to Environmental Documents and Issuing Permits.

Recommendations:

- The Resources Secretary and the Secretary for Business, Transportation and Housing should report at budget hearings on actions they are taking to fill positions authorized in the 1999-00 budget for environmental review.
- Caltrans should report at hearings on whether additional funding is needed to fully pay for positions in state and federal resource agencies to expedite project delivery.
- Enact legislation to require that all state permitting agencies participate earlier in the California Environmental Quality Act process.
- Seek federal legislation to delegate Federal Highway Administration (FHWA) authority to Caltrans to review and approve environmental documents related to National Environmental Protection Act (NEPA), and require federal permitting agencies to participate earlier in the NEPA process.

Caltrans Does Not Take Full Advantage of Environmental Streamlining Opportunities.

Recommendations:

- Enact legislation to require Caltrans, in coordination with the California Transportation Commission, to select six projects as pilots for an environmental streamlining process.
- Caltrans should renegotiate a new agreement with FHWA because the existing agreement has too many exceptions to be a useful streamlining tool.
- Caltrans should direct staff to make use of a current agreement whereby the federal government delegates authority to the state to approve categorical exclusion of NEPA reviews.
- Adopt supplemental report language requiring Caltrans to report on various environmental streamlining information.

The Current Process

Before a project may be constructed, the FHWA, Caltrans or local agencies are responsible for ensuring that the project complies with state and federal environmental laws. The two major laws governing transportation projects in California are the California Environmental Quality Act (CEQA) and the National Environmental Protection Act (NEPA). Most large transportation projects must comply with both of these laws. Specifically, all projects built in California must comply with CEQA and any project receiving federal funds or requiring approval of a federal agency must comply with NEPA.

In addition to CEQA and NEPA, there are also laws at the state and federal level that deal with specific environmental issues, ranging from the protection of archeological sites and endangered species to the protection of water and air quality. Compliance with all of these laws may require involvement from as many as 30 federal, state, and local transportation, environmental and planning agencies, as well as public comment and review. While the goals of these laws have merit, some of the procedures that Caltrans and/or local agencies follow (either by law or practice) to comply with them add substantial time to the project development process without necessarily adding a higher level of environmental protection.

Both CEQA and NEPA provide for three different levels of review, as shown in Figure 10. For projects that are categorically excluded or exempt, Caltrans or FHWA need only certify that the project meets the criteria for exclusion from a detailed environmental review to be in compliance. For example, a minor rehabilitation project to an existing freeway would be categorically excluded from detailed environmental study. By contrast, both negative declarations (no impact) and environmental impact reports (EIRs) require detailed scientific study, with a much higher level of review required for an EIR or an environmental impact statement (EIS) than a negative declaration or a finding of no significant impact (FONSI).

Figure 10

Three Levels of Environmental Review For Transportation Projects

Level of Review	NEPA[a]	CEQA[b]
Exempt from detailed review due to type of project	Categorical exclusion	Categorical exemption
No impact: Studies find project to have no significant impact on environment. May require mitigation under CEQA.	FONSI (Finding of No Significant Impact)	Negative declaration
Full environmental review required with environmental studies, public hearings, and extensive agency involvement. Project benefits must outweigh costs.	Environmental Impact Statement (EIS)	Environmental Impact Report (EIR)

[a] National Environmental Protection Act.
[b] California Environmental Quality Act.

Caltrans Falls Behind Schedule in Environmental Review

In 1998-99, Caltrans completed only 10 of 36 environmental review documents that were scheduled for completion. We find that delay in environmental review is often caused by lengthy federal review time and late involvement of state and federal resource agencies.

According to the CTC's 1999 annual report, the schedule used by Caltrans' for programming environmental documents in the STIP is often unrealistic. Delay in completing environmental documents often causes delay in project design and engineering which, in turn, delays construction. This causes funds programmed for these projects to sit idle. Our review found that Caltrans' record of completing environmental documents in 1998-99 fell far below its target. Specifically, Caltrans completed only 10 of 36 environmental documents (including negative declarations and EIRs) that were scheduled for completion. The department also projects delays in environmental documents scheduled to be completed in 1999-00 and 2000-01. The delay of these documents will almost certainly delay the overall construction schedule of these projects.

Duplication Between CEQA and NEPA Not Major Problem; Delay Caused Primarily by Federal Review Time. One common perception of the cause of delay in transportation projects is the duplication of work required under CEQA and NEPA. However, our review found that duplication is *not* a major problem. For transportation projects requiring both CEQA and NEPA review, Caltrans conducts all of its studies, consultations, analyses, and public reviews of draft documents *concurrently*, and uses the same documents to satisfy both laws. Local agencies sometimes conduct reviews sequentially when projects that are originally funded with state and/or local funds are subsequently selected for federal funding. While this adds substantial time to the process, it is a result of the decision to use federal funds at a later date, rather than a requirement to conduct sequential review.

From a practical standpoint, however, NEPA does add substantial time to the environmental review of a project. Our review found that this is primarily due to the length of time federal agencies, including FHWA, take to review and approve the documents. This problem also occurs at state agencies responsible for commenting on CEQA documents.

Delay Also Caused By Late Involvement of State and Federal Agencies. Delay in completing environmental documents is often caused by concerns that are raised late in the review process by state or federal resource agencies regarding the alternatives and/or environmental impacts of a project. In recognition of this problem, Caltrans has entered into memoranda of understanding (MOUs) with a number of state and federal agencies to facilitate their earlier involvement in the review process. However, according to Caltrans, these MOUs have not been accompanied by an increase in staff at the various agencies that would enable earlier involvement in the process. Consequently, early involvement by federal and state resources agencies in the scoping and planning of transportation improvements has been practically nonexistent.

Administration Should Fill Positions in Resource Agency Expeditiously

We find that Caltrans has not yet completed negotiations to fund any of the resource agency positions approved for the current year to expedite project delivery. We recommend that the Resources Secretary and the Secretary for Business, Transportation and Housing report at budget hearings on actions they are taking to ensure that the agreements are promptly negotiated. Additionally, we recommend that Caltrans report at budget hearings on whether additional funds are needed to fully fund the 25 positions in resource agencies that were originally approved in the 1999-00 budget to review environmental documents.

The 1999-00 budget took a first step toward addressing the problem of under-staffing at state and federal resource agencies by funding 25 new positions in various state and federal agencies using transportation funds. However, due to higher than anticipated costs for the positions, Caltrans now estimates that it will only be able to fund 19 positions, as shown in Figure 11. As a result, Caltrans no longer intends to fund any positions in a Regional Water Quality Control Board or the Department

Figure 11

Resources Staff For Transportation Projects Funded by Caltrans

Agency	New Positions
California Department of Fish and Game	6
California Office of Historic Preservation	3
California Coastal Commission	2
U.S. Army Corps of Engineers	1
U.S. National Marine Fisheries Service	1
U.S. Fish and Wildlife Service	4
U.S. Environmental Protection Agency	2
Total	**19**

of Toxic Substances Control, despite its original request for a total of six positions in these departments.

Caltrans is currently negotiating interagency agreements to transfer the funds necessary to fill the 19 positions. At the time this analysis was prepared, however, none of the agreements had been finalized and thus none of the positions had been filled, more than seven months after they had been authorized by the Legislature.

Given the administration's desire to expedite environmental reviews in order to speed up project delivery as indicated by the Governor's environmental streamlining initiative, it is unclear why it has taken so long for the state agencies to negotiate interagency agreements. To the extent departmental staff cannot expeditiously negotiate these agreements, we recommend that the Resources Secretary and the Secretary for Business, Transportation and Housing report at budget hearings on the actions they are taking to ensure that the agreements are promptly negotiated. Additionally, we recommend that the department report at budget hearings on whether more funds are needed to fully fund the 25 positions originally approved in the 1999-00 budget.

Early Involvement Provisions of CEQA Should Be Strengthened

We recommend the enactment of legislation to require all state permitting agencies to participate earlier in the California Environmental Quality Act process.

Under current law, state resource agencies are not required to respond to the original "notice of preparation" which occurs at the beginning of the draft of an environmental document. As a result, permitting agencies can choose not to participate in an environmental review until they receive a permit request which may occur after CEQA approval. This can add unnecessary delay to project development. For example, after Caltrans has spent years negotiating an acceptable environmental mitigation plan for a large, complex project, a permitting agency (such as the San Francisco Bay Conservation and Development Commission or the California Coastal Commission) could raise new objections or alternatives after the final EIR has been approved, despite having been notified of the project at the initial stages of the EIR. In order to obtain the permit, Caltrans would then be required to do substantial additional work, revisiting issues that had already been resolved as part of the final approval of the environmental document.

We think that earlier involvement of permitting agencies in the CEQA review has the potential to reduce the length of the environmental review process. Accordingly, we recommend that legislation be enacted to require that all state permitting agencies participate earlier in the CEQA process. Specifically, if a permitting agency fails to participate and inform Caltrans of its concerns after being formally notified of the project, it forfeits the right to raise issues that have already been addressed in the CEQA review process. Such a modification of existing law might require additional staff at the permitting agencies in order to facilitate earlier involvement in the EIR process. However, it is likely that this additional cost would be more than offset by the time savings that would result from earlier involvement. Overall, this change has the potential of streamlining project delivery while maintaining the rigor of the environmental review process.

California Should Seek Delegation of Federal Authority and Early Involvement of Federal Permitting Agencies

We recommend that California seek delegation of federal authority to review and approve environmental documents. Additionally, we recommend that California seek federal legislation to require that all federal permitting agencies participate earlier in the National Environmental Protection Act review process.

Under NEPA, FHWA is the lead agency for transportation projects using federal funds. As such, it is responsible for signing off on all environmental documents and federal resource agency permits required for such projects. In 1998-99, FHWA had only two staff members to perform this function in California. In 1999-00, FHWA took steps to improve its timely response and ability to process environmental documents by increasing to six its environmental staff in California. While one way to reduce delay is for Caltrans to fund additional staff at FHWA, another option is for the California Congressional delegation to seek delegation of authority from FHWA for Caltrans to review and approve environmental documents and negotiate with federal resource agencies.

The FHWA has already delegated to Caltrans the authority to review and approve design work and right-of-way certifications in recent years. We believe significant time savings could result if FHWA were to delegate to Caltrans authority to review and approve environmental documents for highway projects. For example, under current practices, FHWA takes at least six months to conduct a final review of the EIS. Additionally, FHWA currently acts as an intermediary in all official communication between Caltrans and federal resource agencies, adding unnecessary delay in the review process. Consistent with recommendations made by CTC, Caltrans and a recent consultant study, we recommend that the Legislature work with the California Congressional delegation to enact legislation that would delegate to Caltrans certain FHWA authority pursuant to NEPA.

Additionally, we recommend that the Legislature seek federal legislation to require that federal permitting agencies participate earlier in the NEPA process. As discussed above, with respect to CEQA, permitting agencies often raise new issues after the final environmental document has been approved. This legislation could ensure that they participate earlier in deliberations thereby enabling Caltrans to address their concerns at an earlier date.

Caltrans Should Participate in Environmental Streamlining Pilot Projects

We find that several states have had significant success in environmental review streamlining efforts. Accordingly, we recommend the enactment of legislation to require Caltrans, in coordination with the California Transportation Commission, to select six State Transportation Improvement Program projects as pilots in a state and federal environmental streamlining process.

Federal law, under TEA-21, contains a provision that calls for streamlining environmental review in order to reduce unnecessary delays in delivering transportation projects. To meet this commitment, various federal agencies have signed a memorandum of understanding in which they agree to reduce project delays.

To date several states, including Pennsylvania and Kentucky, have had significant success with environmental streamlining efforts. For instance, the Pennsylvania Department of Transportation, in coordination with the United States Environmental Protection Agency, has developed an innovative approach to the environmental review process. Rather than using the environmental review document as the main vehicle for communication among agencies, the department brings all the stakeholder agencies (local, state, and federal) together at the outset of a project to obtain consensus on the purpose and need of the project, and the alternatives to be studied. By achieving consensus on these issues early, the department avoids delays in the future that arise as a result of challenges to a project's scope or the alternatives under consideration.

In Kentucky, the state Department of Transportation recently completed a full EIS for a highway project on a new alignment in nine months by involving over 40 stakeholders and by approaching the project as an opportunity to provide environmental *and* transportation improvements. This approach avoids the traditionally adversarial relationship between transportation and resource agencies and thereby accelerated environmental review considerably. The typical review for a new alignment would be *at least* four years.

Recommend Environmental Streamlining Pilot Project. Given the successes of these approaches elsewhere and the approval of such projects at the federal level, we recommend that the department take advantage of the opportunity in the 2000 STIP to experiment with new approaches to environmental review. Accordingly, we recommend the enactment of legislation to require Caltrans, in coordination with the CTC, to select six STIP projects as pilots in a state and federal environmental streamlining process. These pilots should include the following key features: (1) achieving consensus early in the process on the purpose and need for the project and (2) defining projects as having a joint environmental and transportation purpose and need.

Caltrans Should Take Better Advantage of Existing Streamlining Opportunities

We recommend that Caltrans make greater use of an existing agreement with the Federal Highway Administration designed to expedite environmental review for certain projects. We also recommend that the department renegotiate the current agreement to make it applicable to more projects. Finally, we recommend the adoption of supplemental report language to require Caltrans to report to the Legislature on the use of this agreement.

Majority of Projects Are Excluded From Detailed Environmental Review. Because the majority of transportation projects today are modifications or repairs to the existing infrastructure and right of way, many projects are categorically excluded from detailed environmental review. According to data from Caltrans, about 67 percent of STIP and SHOPP projects are likely to be categorically excluded from detailed environmental review. Specifically, about 31 percent of projects contained in the 1998 STIP are likely to be categorically excluded, 36 percent are likely to result in negative declarations, and the remaining 33 percent are likely to require full EIRs. By contrast, about 82 percent of SHOPP projects are likely to be categorically excluded, about 15 to result in negative declarations, and only 3 percent require full EIRs.

Recommend That Caltrans Make Greater Use of Federal Delegation of Authority. One way to streamline the environmental review process is to make greater use of a process (referred to as a "programmatic agreement") by which FHWA delegates authority to Caltrans to approve categorical exclusion of NEPA review for certain projects. This type of agreement has the potential to be extremely useful given the large portion of Caltrans projects that are categorically excluded from NEPA.

Caltrans does not know what percentage of categorical exclusions currently go through the programmatic agreement process, but estimates that it may be as few as 15 percent, although many more are probably eligible. According to Caltrans, there are so many exceptions to the programmatic agreement that many districts disregard it, relying instead on FHWA's standard approval process. Caltrans does not track the length of time for projects to be reviewed under the programmatic agreement process versus the standard FHWA review process. As a result, there are no baseline data to determine the time savings achievable through greater use of this approach. Nevertheless, the department estimates that the standard FHWA review may take about three months longer than following the programmatic agreement process. We recommend that Caltrans (1) direct the district offices to use the programmatic agreement process whenever possible and (2) provide necessary technical assistance to the districts to do so. Additionally, we also recommend that Caltrans renegotiate the agreement with FHWA to broaden its applicability.

Recommend Caltrans Evaluate Use of Programmatic Agreement. Given the number of categorical exclusions in the STIP and the SHOPP, failure to make optimal use of the programmatic agreement may add considerable unnecessary delay and cost to transportation projects. We recommend the adoption of supplemental report language requiring Caltrans to report on the use and benefit of the programmatic agreement. Specifically, we recommend that the following supplemental report language be adopted:

> By December 1, 2000, the department shall submit to the Legislature a report regarding the use and benefits of the programmatic agreement with the Federal Highway Administration (FHWA). Specifically, the report shall describe (1) the length of time categorical exclusions take under standard FHWA review; (2) the length of time categorical exclusions take under the programmatic agreement; and (3) the percentage of eligible projects using the programmatic agreement from 1998 to present.

INTERCITY RAIL PROGRAM

The intercity rail program was established to provide motorists traveling long distances with a safe, efficient, and cost-effective transportation alternative to the automobile. Currently, the state 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.

The Capitol intercity rail service is administered by the Capitol Corridor Joint Powers Authority (CCJPA) which started on July 1, 1998, following the enactment of the Intercity Passenger Rail Act of 1996 (Chapter 263, Statutes of 1996—SB 457, Kelley). Caltrans administers service on the remaining two rail corridors. In addition to providing for the operation of service, Caltrans and CCJPA also plan for the capital improvements needed to upgrade their respective corridors to provide expanded service. Capital improvement projects include acquisition of rolling stock (cars and locomotives), maintenance facility and station improvements, and track and signal improvements. Both Caltrans and CCJPA contract with Amtrak for the operation and maintenance of the intercity rail service.

State Focuses Primarily on Intercity Rail Service. The passenger rail transportation system in California includes two major components—intercity rail, and commuter and urban rail.

- ***Intercity Rail.*** This component of passenger rail primarily serves business and recreational travelers going between cities in California and to other parts of the country. Currently, Amtrak operates all intercity rail service in the state. On rail corridors where the state wishes to provide for expanded service beyond Amtrak-defined "basic service" levels, the state contracts and shares costs with Amtrak to provide for additional train operations.
- ***Commuter and Urban Rail.*** These services are provided within urban or metropolitan areas with commuter rail generally offering frequent service during the commute hours, and urban rail providing regular service throughout the day. Because commuter and urban rail services primarily serve local and regional transportation needs, they are planned and administered by local and regional transportation agencies. Funding is provided with a combination of local, state, and federal funds.

Chapter 622, Statutes of 1997 (SB 45, Kopp), defined the state's role in mass transportation as primarily providing for and enhancing interregional mobility. As a result, within the rail program, Caltrans concentrates primarily on providing intercity rail service while also providing administrative support and oversight for state and federal grant programs for commuter and urban rail services.

For 2000-01, the budget requests $64 million for Amtrak to provide intercity rail service. Additionally, as part of the Governor's Transportation 2000 Initiative, the budget requests $50 million from the General Fund for intercity rail track improvement and equipment purchases.

In the following sections, we discuss:

- The level of current intercity rail service and its costs.
- Performance of the service.
- Future costs of the service.
- Issues for legislative consideration.

Intercity Rail Service Has Increased, As Have State Costs

The frequency of intercity rail service, measured by the number of daily round trips, has increased in recent years across all intercity rail corridors. Revenue has also increased, but not as quickly as state costs for providing rail service.

Service Frequency and Revenue Have Increased. Figure 12 shows the number of daily round trips for the intercity rail service since 1995-96. Service frequency levels were relatively constant through the first half of the 1990s, but as the figure shows, service began to increase in 1997-98. Since 1995-96, revenue mainly from fees has also increased. Specifically, average annual revenue growth has ranged between 6.6 percent on the San Diegan to 15 percent on the Capitol between 1995-96 and 1998-99.

Figure 12

Intercity Rail—Service and Financial Data

(Dollars in Thousands)

	1995-96	1996-97	1997-98	1998-99	Average Annual Growth
Number of Round Trips Per Day					
Capitol	4.0	4.0	4.0	6.0	—
San Diegan	8.5	8.5	10.0	11.0	—
San Joaquin	4.0	4.0	4.0	5.0	—
Revenue					
Capitol	$4,805	$5,938	$6,245	$7,314	15.0%
San Diegan	13,554	14,804	15,697	16,438	6.6
San Joaquin	12,477	13,818	15,244	16,921	10.7
State Cost					
Capitol	$6,435	$9,702	$11,647	$16,241	36.2%
San Diegan	11,107	16,189	21,316	21,373	24.4
San Joaquin	14,483	16,265	17,915	22,122	15.2

State Costs Have Increased More Quickly. As Figure 12 displays, the amount of operating support the state has provided intercity rail service since 1995-96 has grown at a high rate. For instance, state costs on the San Joaquin have increased at an average rate of 15 percent a year over the four-year period, while costs on the Capitol have increased substantially more at an average annual rate of 36 percent. These increasing costs are, in large part, a result of the expanded train service on all three corridors during this period. The climb in state costs is also attributable to the change in how Amtrak charged the state for passenger rail service. Beginning in 1996-97, Amtrak changed the basis for calculating state cost and increased the portion charged to the state.

Past Performance Exhibits Mixed Results; Performance Standards Are Needed

Intercity rail ridership levels and service performance, as measured in terms of "farebox ratio," have improved. However, increasing costs have elevated the amount of state subsidy per passenger.

We recommend the adoption of supplemental report language requiring the Business, Transportation and Housing Agency to develop multiyear intercity rail performance standards, and provide those standards to the Legislature as part of the annual budget request for the intercity rail program. Such information should be designed to assist the Legislature in determining whether additional capital investments are cost-effective.

Ridership and Farebox Recovery Have Improved. Figure 13 shows three measures of intercity rail performance—ridership, farebox ratio, and state cost per average passenger trip. As the figure shows, since 1995-96

Figure 13

Intercity Rail Performance

	1995-96	1996-97	1997-98	1998-99	Average Annual Growth
Ridership (in thousands)					
Capitol	403	497	462	544	10.5%
San Diegan	913	1,035	1,053	1,032	4.2
San Joaquin	526	653	668	675	8.7
Farebox Ratio[a] (percent)					
Capitol	43.4%	29.0%	30.4%	31.2%	—
San Diegan	56.5	37.4	34.1	45.4	—
San Joaquin	49.2	40.0	41.6	44.0	—
State Cost per Average Passenger Trip ($)					
Capitol	$16	$19	$22	$26	—
San Diegan	11	24	19	18	—
San Joaquin	18	28	23	26	—

[a] Percentage of operating costs recovered from passenger fares.

ridership has grown at an appreciable rate, with average annual growth rates ranging between 4.2 percent on the San Diegan to 10.5 percent on the Capitol. As a performance measure, ridership indicates the relative usage of the rail service. Year to year, ridership levels may fluctuate, thereby indicating whether changes in train service are successful. Over time, however, the ultimate goal is for ridership levels to increase.

Likewise, the farebox (recovery) ratio—an indicator of the rail service's ability to recoup its operating costs—has also grown, albeit marginally. Thus, in 1998-99, for every dollar spent operating the San Diegan, about 45 cents were recovered through fare revenues. Since 1996-97, the farebox ratio has increased across all three corridors, with farebox ratios in 1998-99 ranging between 31 percent on the Capitol to 45 percent on the San Diegan. Figure 13 also shows that the farebox ratio dropped substantially between 1995-96 and 1996-97—for example, the farebox ratio on the San Diegan dropped from 56 percent to 37 percent. This drop was mainly attributable to the change Amtrak made in the costs charged to the state, as mentioned above.

State Subsidy Per Passenger Trip Also Increased. In addition to the farebox ratio, another measure of the cost-efficiency of the service is the state subsidy per passenger trip. This measure reflects the extent of operating loss to the state per passenger trip. (This measure is derived by multiplying the state operating cost of service per passenger mile by the average passenger trip length.) As Figure 13 shows, over the four-year period the state subsidy for each passenger trip has increased. For instance, on the San Joaquin in 1995-96, the state cost per average passenger trip was $18, while four years later in 1998-99, when the average passenger trip length was essentially unchanged, the state cost had increased to $26.

Though Performance Has Improved, It Is Still Short of Target. As required by SB 457 (Kelley), the Business, Transportation and Housing (BT&H) Agency and Caltrans generated performance standards starting in 1997-98 to measure service performance. Figure 14 shows the standards for three key performance measures—ridership, farebox ratio, and on-time performance. The figure shows standards set for 1997-98 through 1999-00, and the actual performance for each route for 1997-98 and 1998-99. No actual data are yet available for the current year.

As the figure shows, while overall service performance in terms of ridership and farebox ratio has improved over time, performance in terms of ridership has in general fallen short of the performance target. For example, ridership was projected to grow by 16 percent on the San Joaquin after additional service was added in 1998-99, but grew by only 1 percent between 1997-98 and 1998-99. Similarly, on-time performance has improved along all three corridors, but generally not to the degree projected by the performance standards. Caltrans maintains that establishing realistic performance standards for rail service is a complex and uncertain enterprise. A variety of unpredictable factors—natural disasters, contractor delivery delays, fluctuations in freight rail traffic—can impact the ultimate performance of the service. The department states that more robust analyses of ridership demand and cost are needed in order to more accurately set performance standards.

Figure 14

Intercity Rail Performance—Targets Versus Actual

	1997-98		1998-99		1999-00	
	Target	**Actual**	**Target**	**Actual**	**Target**	**Actual**
Capitol						
Ridership (in thousands)	536	462	716	544	752	NA
Farebox ratio (percent)	30.0%	30.4%	31.0%	31.2%	32.0%	NA
On-time (percent)	80.0%	83.0%	90.0%	93.0%	90.0%	NA
San Diegan						
Ridership[a] (in thousands)	1,793	1,571	1,844	1,540	1,936	NA
Farebox ratio (percent)	38.0%	34.1%	41.4%	45.4%	42.2%	NA
On-Time (percent)	78.0%	67.0%	80.0%	73.0%	90.0%	NA
San Joaquin						
Ridership (in thousands)	691	668	799	675	839	NA
Farebox ratio (percent)	41.0%	41.6%	42.0%	44.0%	43.0%	NA
On-Time (percent)	75.0%	63.0%	80.0%	73.0%	85.0%	NA

[a] Ridership data for all trains, including Amtrak and state-supported service.

NA - Not available.

Upcoming Intercity Rail Analysis Will Assist With Development of Performance Standards. According to Caltrans and Amtrak, a comprehensive statewide intercity rail analysis is currently in the final stages of completion, with preliminary results expected to be released this spring or early summer. The report is expected to provide ridership and cost projections 20 years into the future for both existing and proposed intercity rail corridors. Caltrans expects that it would be able to establish more realistic performance standards based on the report's ridership and cost projections.

Multiyear Performance Standards Would Facilitate Assessment of Capital Investment Proposals. Currently, performance standards are set on a year-by-year basis for the three intercity rail corridors. The standards do not extend beyond one fiscal year. Thus, they do not provide an indication of how the services are expected to perform beyond one year, and what performance targets are to be achieved over time. Instead, multiyear performance standards, while not precise projections, would provide a better sense as to how the rail services are expected to perform beyond one year in the future.

Such multiyear standards would be particularly useful in assisting the Legislature in determining whether additional capital investments are warranted and cost-effective. For instance, the department's draft of a new ten-year rail plan (covering 1999-00 through 2008-09) calls for significant capital improvement and service expansion of intercity rail service, and the 2000-01 budget proposes $50 million of track improvement and equipment procurement for service expansion. Without some indication of target performance to be achieved through such investments, it is difficult for the Legislature to assess whether the investments have merit.

In order for the Legislature to be able to measure the program's performance and assess the cost-effectiveness of proposed capital investments, we recommend the following supplemental report language:

> It is the intent of the Legislature that the Business, Transportation and Housing Agency sets performance standards for the three state-supported intercity rail corridors annually. These standards should be projected for three years into the future, and be revised on an ongoing annual basis. It also is the intent that the regional boards administering any intercity rail service and the Department of Transportation (Caltrans) incorporate these performance standards into their annual business plans for the service.
>
> In order to facilitate the evaluation of capital investment proposals, Caltrans should provide multiyear performance standards. Specifically, beginning in the 2001-02 budget, as part of its annual budget request, Caltrans should provide performance standards for a three-year period beginning with the budget year, to measure the usage (for example, ridership), cost-efficiency (for example, farebox ratio), and quality (for - example, on-time performance) of the intercity rail service funded by the state.

Intercity Rail Service Costs Will Be Revised

We withhold recommendation on $64 million requested to continue existing intercity rail services because the amount needed will likely be different from current estimates. Specifically, more current cost estimates will be forthcoming from Amtrak in March 2000. We recommend that the department provide the updated cost estimates at budget hearings. Based on that information, the Legislature should adjust the amount of support for intercity rail services accordingly.

The budget requests $64 million to support Amtrak's costs for continuation of intercity rail services in 2000-01.

Updated Amtrak Cost Estimates Will Be Forthcoming. The budget request is based on cost estimates provided by Amtrak in 1999. We understand that Amtrak will provide Caltrans with updated estimates in March 2000. Accordingly, we withhold recommendation on $64 million for intercity rail services. We further recommend that Caltrans provide updated cost estimates at budget hearings and that the Legislature adjust the proposed appropriation based on the updated information.

Huge Future Capital Investments Anticipated; Budget Proposal Not Justified

The draft ten-year rail plan covering 1999-00 through 2008-09 calls for a major expansion of intercity rail service, including more round trips and new routes. If all new services are implemented, total capital costs are estimated to be approximately $3.1 billion over ten years.

Due to inadequate justification, we withhold recommendation on $30 million requested for two new train sets (two locomotives and ten passenger cars) for the intercity rail system pending receipt of information to be provided in writing by the department, prior to budget hearings, on projections on ridership, cost, and revenues of future service.

Draft Rail Plan Envisions Substantial Expansion of Intercity Rail Service. Current law requires the department to develop a ten-year state rail plan to be updated biennially. In November 1999, Caltrans submitted to CTC the draft version of the 2008-09 Rail Passenger Program Report which delineates the department's plans for intercity rail service expansion, assuming no potential fiscal constraints or limitations. The plan provides both a review of the current operations of state-supported intercity rail service and an outline of plans for capital improvements and service expansions over the next ten years. Based on the goal of improving customer service by increasing a traveler's schedule flexibility and augmenting the existing system with new routes, the report envisions a substantial expansion of the state's intercity rail service over ten years. Specifically, by 2008-09 the draft plan calls for expanding service on existing routes as follows:

- Sixteen round trips per day on the San Diegan (a 45 percent increase over current-year service).
- Ten round trips per day on the San Joaquin (a 100 percent increase over current-year service).
- Twelve round trips per day on the Capitol (also a 100 percent increase over current-year service).

The draft plan also recommends expanding the intercity rail system by adding new rail routes, including:

- Coast route, with service between San Francisco and Los Angeles.
- Monterey route, with service between San Francisco and Monterey.
- Reno route, with service between Sacramento and Reno, Nevada.
- Coachella Valley route, with service between Los Angeles and the Coachella Valley.
- Redding route, with service between Sacramento and Redding.

More Intercity Rail Service, at a Huge Price. Figure 15 shows the projected capital cost over the ten-year period required to expand service as envisioned in the draft rail plan. The cost of capital improvements on the three *existing* routes is estimated at about $2.5 billion. This cost estimate includes costs for acquiring rolling stock as well as track and signal improvements. As for the proposed *new* routes, the capital cost is projected to be approximately $601 million. The total capital cost, therefore, for both existing and proposed routes is estimated at about $3.1 billion in current dollars. Of this amount, the bulk would be for track and signal improvements, totaling an estimated $2.3 billion over ten years.

The above projected costs are for capital improvements only. They do not include state costs for ongoing operations and maintenance. According to the draft plan, if all services contained in the report were implemented, annual state operating costs would amount to approximately $192 million by 2008-09 (inflated at a 2.3 percent annual rate beyond 1999-00). In addition, there would be significant ongoing costs for heavy maintenance of rolling stock (including rebuilding and replacing various parts of locomotives and train cars). The 2000-01 budget proposes approximately $6 million for annual heavy maintenance of the existing state-owned rail fleet. While the 2000-01 proposal appears to be warranted, heavy maintenance constitutes an ongoing cost that increases as more equipment is purchased.

Figure 15

Intercity Rail
Projected Ten-Year Capital Cost

(In Millions)

Route	Total
Existing Routes	
San Diegan	$1,186.3
San Joaquin	571.7
San Joaquin and Capitol	206.7
Capitol	505.2
Statewide	11.0
Subtotal	$2,480.9
Proposed New Routes	601.4
Total	**$3,082.3**

Budget-Year Request First Step Toward Ten-Year Rail Plan. The 2000-01 budget proposes (1) $20 million from the General Fund for track improvements on the San Joaquin corridor and (2) $30 million from the General Fund to acquire two new train sets (consisting of two locomotives and ten passenger cars) for service expansion in late 2001-02.

Track Improvement for San Joaquin Corridor Warranted. Our review shows that double-tracking and improving signals on the San Joaquin corridor would reduce train running times and improve on-time performance. According to the private railroad owner, work is ready to proceed on the line in the budget year.

Withhold Recommendation on Funding for More Trains. We withhold recommendation on the funding for additional train sets requested in the budget for the following reasons:

- ***Ridership Projections Lacking.*** Caltrans contends that to increase ridership, service frequency (in term of round trips) must increase. Past experience demonstrates, however, that increasing round trips will not guarantee a boost in ridership. For instance, after a round trip was added to the San Diegan in 1998-99, ridership actually dropped. This is because ridership depends on a number of factors besides service frequency. Whether additional train service should be implemented ought to take into consideration ridership demand. The department, however, has not provided any ridership demand justification for increasing service on any of the intercity rail corridors for 2000-01. Absent these projections, the proposal is premature.

Because preliminary findings and projections of ridership, costs, and revenues would be forthcoming in the Amtrak's intercity rail analysis this spring, that information may provide a better basis to evaluate the merit of the state buying additional trains in the budget year.

- ***Draft Plan Not Yet Adopted.*** The budget proposes to proceed with expansion of the intercity rail system, despite the fact that a final ten-year rail plan has not been adopted by CTC as required by statute, and would not be presented to the Legislature until the fall of 2000. Thus, the justifications for or merits of rail service expansion as envisioned in Caltrans' plan have yet to be fully assessed.

Accordingly, we withhold recommendation on $30 million requested to fund the acquisition of two new train sets until the department provides the Legislature in writing, prior to budget hearings, projections on ridership, cost, and revenues for future service with the addition of the proposed new trains. Based on these projections, the Legislature would be better able to determine if the train purchase is warranted.

Passenger Rail Policy Considerations for the Legislature

The Legislature should consider numerous policy issues related to the state's role in providing rail service in general, and intercity rail service in particular.

We recommend enactment of legislation requiring the Department of Transportation to conduct a comprehensive rail study that incorporates the various forms of rail—commuter, urban, and intercity—in order that the Legislature can determine what the state's role should be in funding passenger rail service.

Passenger rail service has expanded significantly in the state during the last 20 years. As mentioned above, the draft ten-year rail plan envisions further, significant expansions in the state's intercity rail program. When determining the state's role in funding these rail investments and providing rail service, there are a number of issues the Legislature should consider. Below, we first discuss broader policy issues, beyond intercity rail. We then discuss issues related to the state's funding of intercity rail services.

What Are the Role and Objectives of Passenger Rail? Before the state invests heavily in rail capital improvements (intercity, commuter, or urban rail), the Legislature should reexamine the role and objectives of passenger rail transportation. Specifically, what role should rail play in the state's transportation strategy? Is the state's primary role to fund long-distance, interregional travel? Or, does the state want to include other objectives for passenger rail service, such as traffic congestion relief, air quality mitigation, and urban mobility enhancements? In the latter case, the state should assess where its investments in rail transportation can most effectively and efficiently advance those additional objectives.

How Should Regional and Interregional Rail Transportation Be Defined? Currently, the state's major transportation corridors continue to be developed and urbanized (for example, Oakland to Sacramento; San Joaquin Valley, Central Valley to San Jose; San Diego to Santa Barbara). As this growth occurs, the distinction between what constitutes "interregional," "regional," or "commuter" rail transportation becomes more blurred. The Legislature should reexamine the current definition of interregional and regional rail transportation and determine if current law best meets the needs of the state. There is currently no definition in state law for commuter or intercity rail service. Rather, the state relies on federal law definitions for these services. How a rail service is categorized affects whether the service is eligible for state funding under different programs. For instance, commuter rail service in general is not eligible to use interregional transportation funds. A reexamination of what constitutes intercity versus commuter rail is warranted in order to ensure that the state's resources for rail improvement projects are allocated in the most effective manner.

Given Substantial Anticipated Costs, What Is the Priority of Intercity Rail Relative to Other Transportation Programs? In addition to the approximately $3 billion in capital needs over the next ten years identified by Caltrans for the state's intercity rail network, other substantial capital investment needs have been recognized. For example, the recently released *Inventory of Ten-Year Funding Needs for California's Transportation System*, prepared pursuant to SR 8 (Burton), provides the first statewide estimate of future transportation investment needs for the next ten years. Though the report acknowledges that its cost projections are rough estimates, they do provide an order of the magnitude of future costs that the state faces. Beyond investments in intercity rail, the report provides estimates for other forms of passenger rail service, including commuter and urban rail needs. Specifically, the report projects a shortfall in funding for rail capital improvements ranging between $2 billion (to maintain existing levels of rail service) and $9 billion (to increase ridership by 50 percent over the next ten years). These projections do not include the estimated shortfall in funding for commuter and urban rail operations, which ranges between $141 million and $522 million over ten years, depending on the level of service desired.

In light of the substantial anticipated future capital and operating costs for commuter and urban passenger rail systems, the Legislature should consider the relative priority of intercity rail compared to the needs of the state's other mass transportation systems in order to provide cost-effective transportation services.

How Will Intercity Rail Be Funded in the Long Run? In a recent report on the condition of the Public Transportation Account (PTA) (please see our January 2000 report *Public Transportation Account: Options for Addressing Projected Shortfall*), we projected a funding shortfall in the PTA of about $53 million over four years (2000-01 through 2003-4), with the shortfall increasing to approximately $158 million over six years (2000-01 through 2005-06). Funding for state-supported intercity rail service constitutes a large portion of PTA expenditures, comprising nearly 25 percent of current-year estimated PTA expenditures. The PTA is the state's primary and most flexible source of funding for mass transportation, other than the General Fund. To the extent that expenditures for intercity rail increase, funding for other programs such as assistance to transit operators and transportation planning and research activities will be restricted or reduced. Nonetheless, with a substantial account shortfall projected for the future, there is currently no capacity for *expanding* intercity rail service as planned by the department.

Furthermore, the future costs for operating intercity rail are also uncertain. The state contracts with Amtrak for its intercity rail services, and the costs of these services are covered by fare revenues, federal operating grants, and state funds. As part of the Amtrak Reform and Accountability Act of 1997, Amtrak may lose all federal operating assistance funds after 2002. Although Amtrak states that its current business plan already takes into account no federal operating support beyond 2002, the U.S. General Accounting Office expressed concern in a recent report over Amtrak's ability to meet the financial targets set in its current business plan.

Given the condition of PTA and the significant future capital and operating costs of intercity rail service, the Legislature should consider how best to provide a continuing and stable source of funding for the level of rail service it chooses.

Recommendation for Comprehensive Rail Plan. Based on the above considerations, we recommend the enactment of legislation requiring Caltrans to initiate a comprehensive, statewide assessment of all existing and proposed passenger rail systems, including intercity, commuter, and urban rail. The study should be conducted in cooperation with transit operators and regional transportation planning agencies, and should emphasize how the intercity rail system integrates with other modes of passenger rail transportation, particularly if there are connections between commuter/urban and intercity rail.

The most recent ten-year rail plan produced by the department (released in 1993) is primarily focused on the three intercity rail corridors. Sections were included in the report that provided descriptions of and limited planning details for commuter and urban rail systems. The ten-year plan does not, however, provide an adequate analysis of how the various passenger rail systems integrate. Without such an analysis, the state has difficulty assessing where gaps exist between the interregional and regional modes, or even between regional systems, of rail transportation. A comprehensive assessment of the various rail systems will also assist the state in determining where the most cost-effective capital investments can be made to meet the objectives of passenger rail transportation. Therefore, we recommend that the study examine the current operations of the various intercity, commuter, and urban rail systems statewide. The study should also identify the capital and operational investments that are planned over the next ten years, including details on commuter or urban rail's rehabilitation programs, new improvement projects, and new or extended services. Instead of planning for the expansion of each type of passenger rail in isolation, this study should assess how expansion of one system complements or impacts the ridership, revenues, and costs of the other.

As explained above, a comprehensive intercity rail planning report funded by Amtrak is in the final stages of completion. While this report is expected to provide in-depth ridership, service, revenue, and cost projections for intercity rail well into the future, it will not incorporate other modes of rail into its detailed forecasting analysis. Without an assessment of intercity, commuter, and urban rail funding needs and plans for expansion, the Legislature will not be able to effectively determine where passenger rail capital investments are most needed nor evaluate the overall effectiveness of the state's passenger rail network.

LOCAL TRANSIT

Funding of Commuter and Urban Rail Proposal Should Use Existing Process

The budget proposes $71 million from the General Fund for capital improvement and acquisition projects on commuter and urban rail systems. Consistent with legislative practice, we recommend that funding for individual projects not be provided in the budget act. Instead, we recommend that the amount be appropriated as a lump sum without specifying individual projects. Additionally, we recommend the adoption of budget bill language specifying that the funds will be allocated by the California Transportation Commission to commuter and urban rail projects in accordance with project application and evaluation processes under existing law.

Transportation 2000 Initiative Targets Commuter and Urban Rail Projects. As part of the Governor's transportation initiative, the budget requests $71 million from the General Fund for specific commuter and urban rail projects in both southern and northern California. Projects to be funded include rolling stock acquisition, track and signal improvements, and rail station and park-and-ride lot construction. Specifically, the proposal includes:

- ***$36 Million for the Altamont Commuter Express (ACE)***. The funds are for the following projects:
  - $22 million to acquire one train set (consisting of one locomotive and six passenger cars), and to upgrade rail tracks. This would allow for a fourth round trip from the Central Valley to San Jose.
  - $14 million for track improvements to allow for additional train frequencies and round trip service from Modesto to San Jose.
- ***$15 Million for the Southern California Regional Rail Authority.*** The amount would fund track and signal improvements on the Metrolink-owned San Bernardino rail line to allow for increased train frequencies from San Bernardino to Los Angeles.
- ***$15 Million for the Santa Clara Valley Transportation Authority.*** These funds would allow for the construction of track, a light rail station, and a park-and-ride lot for the proposed Winchester Station on the Vasona light rail line between San Jose and Campbell.
- ***$5 Million for Caltrain.*** Funding would support construction of a proposed Coyote Valley Station, track improvements, and a park-and-ride lot.

Funding Rail Proposals Should Use Existing Project Evaluation Process. Current law prohibits allocations for specific transportation improvement projects from being made in the budget act. Rather, the budget act provides a lump-sum appropriation to be allocated by CTC for various transportation projects. The Legislature has adhered to this practice and has generally not allocated other transportation funds for specific projects in the budget act. In general, the state uses two processes to allocate funds to specific transportation projects. The STIP process allocates state and federal transportation funds in accordance with Chapter 622, Statutes of 1997 (SB 45, Kopp) whereby funds are distributed to local and regional agencies based on county shares.

A second process provides for the allocation of general obligation bond funds for transit and rail projects. Specifically, the Clean Air and Transportation Improvement Act of 1990 (Proposition 116) established a formal passenger rail application and evaluation process. Under this law, applicants for grants for transportation improvement projects are required to submit a plan to CTC describing how the grant funds will be used, what other capital funds are available for the project, and a financial plan for operation of new services. The Proposition 116 process allows CTC to assess the viability of a project, the project's readiness, and evaluate the project's merit and priority.

We believe that the proposed projects should be evaluated using the current process established in law. Doing so would ensure that the merits and costs of these projects are assessed relative to other rail transportation improvements based on established criteria, and that the state is allocating its funds in the most cost-effective manner.

Recommend Lump-Sum Appropriation for Commuter and Urban Rail. Consistent with the intent that specific projects not be funded in the budget, we recommend that the budget bill be amended (Item 2660-101-0001) to delete funding for individual projects, without prejudice to the merits of the specific projects proposed by the Governor. Instead, we recommend the amount be appropriated in a lump sum, and budget bill language be adopted directing the CTC to disburse the funds to commuter and urban rail projects that follow project application and administrative review processes established under Proposition 116.

> The California Transportation Commission shall allocate funds provided under this appropriation for commuter and urban rail projects in accordance with project application and administrative review processes established under Proposition 116 (Clean Air and Transportation Improvement Act of 1990).

Bay Area Water Transit Authority

The budget proposes $12 million for the Bay Area Water Transit Authority to fund the planning and development of a water transit system on the San Francisco Bay. We recommend reducing funding for the authority by $6 million because members of the authority have yet to be appointed and no work plan exists for how the entity will work over the next fiscal year. We further recommend that budget bill language be adopted requiring that most of the funds not be allocated to the authority until a work plan has been presented and approved by the Legislature.

New Water Transit Authority Established. Chapter 1011, Statutes of 1999 (SB 428, Perata) created the Bay Area Water Transit Authority effective January 2000. The authority—consisting of 11 members appointed by the Legislature, Governor, and a specified community advisory committee—is required to prepare and submit to the Legislature and Governor a San Francisco Bay Area water transit plan to implement and operate a ferry transit service. The intent is to have an operating ferry transit system within ten years.

Budget Requests $12 Million for Water Transit Plan; Proposes Aggressive Planning Time Line. The budget requests $12 million from the PTA to support the authority over the next year in its planning efforts. Specifically, the funds are for a variety of activities, including: personnel and support costs, legal counsel, environmental assessment work, and regional agency support.

Chapter 1011 does not stipulate when an implementation and operation plan is to be submitted to the Legislature. However, the budget proposal sets a target of July 2001 for completion of all planning work. The proposed work to be completed over the next year is listed in Figure 16.

We believe that the proposal is unrealistic in its assumption that all of the work elements identified in Figure 16 can be completed within one year. This is because of the following:

Figure 16

Bay Area Water Transit Authority
Work to Be Completed by July 2001

- Prepare a detailed description of routes and terminals to be developed within a ten-year period.
- Update a ridership demand model and prepare a demand analysis of each travel corridor.
- Design intermodal connections between the ferry system and other modes of transportation.
- Develop vessel design specifications.
- Design a safety plan with the U.S. Coast Guard and California Maritime Academy.
- Conduct public outreach and hearings.
- Site ferry terminal locations around the Bay Area.
- Initiate and complete a systemwide program environmental impact report.
- Project capital and funding requirements.
- Develop a funding and financing plan.

- ***No Board of Directors and No Staff.*** Currently, only two out of 11 members of the authority's board of directors have been appointed. As the board must be appointed before an executive officer or program staff can be hired, the longer the appointments are delayed, the less likely the authority will be able to organize, hire staff, and develop the proposed water transit plan before July 2001.
- ***No Work Plan.*** The proposal does not include a detailed work plan that provides sufficient explanation as to when each work element will be initiated and completed, as well as the costs the authority expects to incur for each. Therefore, the Legislature is unable to assess whether the target date of July 2001 is feasible and whether the costs are appropriate.
- ***No Indication of Costs Beyond Budget Year.*** No explanation has been provided as to whether the requested amount is one time or will be needed on an ongoing basis. Therefore, it is uncertain what the costs to the state will be beyond the budget year if the implementation plan is not complete by July 2001.

Proposed Amount Premature; Wait Until Work Plan Developed and Costs Better Understood. We believe that compressing the ferry system planning process into one year is not realistic, especially when no work plan exists that specifies how the work will proceed. Furthermore, because the board of directors has not been appointed and no program staff have been hired, we believe it is unlikely the authority will be able to complete the proposed planning work in the budget year.

Assuming that the board of directors is fully appointed and the authority will commence planning work in the budget year, we concur that some level of funding ought to be provided. Assuming that the board is established and initial staff hired by midyear, we recommend that funding be reduced by half of the proposed amount. Accordingly, we recommend reducing funding for the authority by $6 million (reduce Item 2660-101-0046 by $6 million).

In order for the Legislature to have information on how the authority will proceed and what costs will be incurred, we further recommend that the following budget bill language be adopted to require that, before the bulk of the funds are made available, the authority submit a work plan to the Legislature that specifies (1) the intended work elements to be accomplished in the budget year, (2) when the work will be initiated and is projected to be completed, and (3) the cost associated with each item of the work.

Of the amount appropriated in this item, $5.5 million shall be available no sooner than 30 days after the Bay Area Water Transit Authority submits a work plan to the appropriate legislative fiscal committees and the Joint Legislative Budget Committee. The work plan shall specify the intended work elements to be accomplished in the budget year, when the work will be initiated and is projected to be completed, and the cost associated with each item of the work.

HIGH-SPEED RAIL AUTHORITY
(2665)

The California High-Speed Rail Authority (HSRA) is responsible for developing and implementing an intercity high-speed rail service that is fully integrated with the state's existing mass transportation network. The California High-Speed Rail Act of 1996 (Chapter 796, Statutes of 1996 [SB 1420, Kopp]), established HSRA as an independent authority consisting of nine members appointed by the Legislature and Governor. The HSRA is required to develop and submit a plan to the Legislature and Governor to finance, construct, and operate a statewide intercity high-speed rail network.

The budget proposes expenditures of $1 million for support of HSRA in 2000-01. This is a reduction of $2 million, or 67 percent, below estimated current-year expenditures. The reduction is based on the assumption that all consulting work will be completed by the end of 1999-00.

Planning Work of High-Speed Rail Authority Complete

We recommend that $1 million be deleted because the High-Speed Rail Authority expects to submit a business plan to the Legislature and Governor by the end of the current year, and no additional statutorily required work remains for the authority in 2000-01. (Reduce Item 2665-001-0046 by $1 million.)

High-Speed Rail Authority to Sunset. Chapter 796 requires the authority to submit a business plan to the Legislature and Governor for the construction and operation of a high-speed rail system. Thereafter, the authority will sunset June 30, 2001, unless before that date the business plan is approved by the Legislature by enactment of legislation, or approved by voters through a statewide referendum.

Business Plan to Be Submitted; Authority Has Met Its Responsibilities. In January 2000, HSRA released a draft business plan for a 90-day public comment period before the final plan is delivered to the Legislature. The HSRA indicates that it will submit a final business plan to the Legislature and Governor before the end of the current fiscal year.

The draft plan describes a 700-mile long high-speed train system, with a "highest return on investment" route identified along corridors connecting San Francisco, Sacramento, Merced, Bakersfield, Los Angeles, Riverside, and San Diego. Furthermore, the draft plan recommends that the Legislature authorize work to be initiated for a state-level, program-wide environmental impact report on the high-speed train network. The draft business plan also includes: a time line for design, programming, and construction; a forecast of potential ridership and revenues for inter-regional travel; costs for the construction and operation of the system; a benefit-cost analysis; and scenarios for funding the high-speed rail system.

Our review finds that HSRA has met its statutory responsibilities and, absent further direction and responsibilities assigned by the Legislature, will have no additional tasks to perform in 2000-01. Reflecting this, the budget does not propose any further work by HSRA in 2000-01, but provides $1 million for ongoing support of 5.5 personnel-years. Unless the Legislature and Governor decide to proceed with the next phase of high-speed rail development, it is unknown what work the authority will pursue over the next year.

If the Legislature Decides to Proceed with High-Speed Rail Development, Legislation Necessary. If the Legislature and Governor determine that the state should proceed with high-speed rail development, legislation would be necessary to specify the next phase of work to be done. This legislation should also specify the entity that would administer the new task and provide funding accordingly. The next phase of implementation may or may not need to be administered by HSRA. Depending on decisions made by the Legislature and Governor, high-speed rail development may be carried out by some other administrative entity.

Recommendation. Because HSRA will be submitting a business plan to the Legislature and Governor before the end of the current fiscal year, it will have no additional responsibilities and workload for the budget year. Consequently, there is no reason to continue funding the authority. Accordingly, we recommend deleting $1 million from the budget (reduce Item 2665-001-0046 by $1 million).

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. In addition, CHP provides protective services and security for state employees and property, and carries out a variety of other mandated tasks related to law enforcement.

The budget proposes $929.9 million to support CHP in 2000-01. This is approximately $12.5 million, or 1.4 percent, above estimated current-year expenditures. Most of the increased expenditures relate to reimbursed activities, such as providing extra enforcement services at the Department of Transportation (Caltrans) construction sites.

Most of CHP's budget is funded from the Motor Vehicle Account (MVA), which generates its revenue primarily from registration fees, driver license fees, and other vehicle-related fees. For 2000-01, MVA funds would make up 91 percent of CHP's support costs.

Earlier Staffing Cuts Slowly Restored While Workload Increases

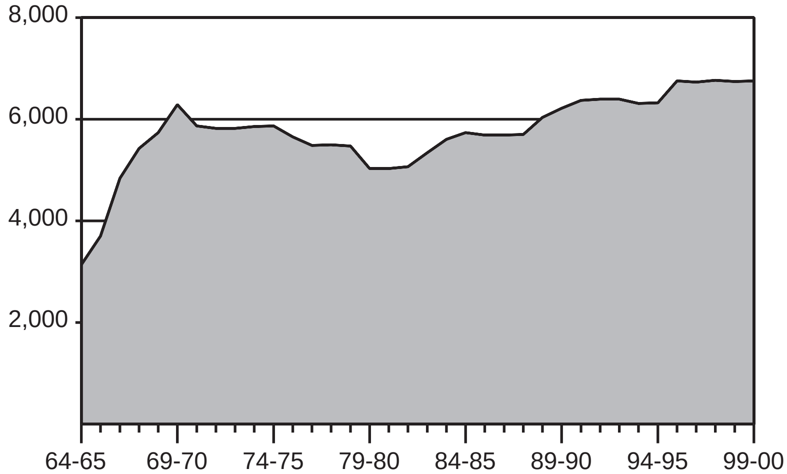
The number of California Highway Patrol (CHP) officers has slowly increased since the early 1980s, following a continuous decline in the 1970s. The increase in staff responds to increased workload and an expansion of CHP's mission. The department estimates that its current level of service is significantly below what it considers to be prudent and justified. The Legislature may want to reexamine the appropriate level of service to be provided by CHP. This would require information from the department on the additional costs of achieving given service levels.

The CHP's uniformed staffing levels have fluctuated as a result of annual budget changes and legislation. The department underwent a major expansion in the late 1960s, when vehicle registration fees were increased to add 1,900 patrol officers over a three-year period. Due to this and other augmentations, CHP staffing peaked at about 6,300 officers in

1970. Uniformed staffing then experienced a protracted decline during the 1970s and early 1980s, due largely to financial constraints and the elimination of a vehicle inspection program and some other nonpatrol functions. Chapter 933, Statutes of 1981 (AB 202, Papan) reversed this trend, providing for the addition of 670 new officers, funded through increased registration fees. Since that time, CHP's uniformed staffing has slowly recovered to about 6,750 officers, which is about 7.4 percent higher than in 1970 (see Figure 1).

Figure 1

California Highway Patrol Uniformed Officers Authorized Positions



Staffing Study. Chapter 1157, Statutes of 1987 (AB 2416, Zeltner) added 150 uniformed officers to the department. The following year, the department requested additional staff to address various workload increases. While the Legislature approved the request, it concluded that it lacked adequate information to evaluate the need for further staffing adjustments, and directed the department to submit a report that (1) identifies desired service levels by major traffic officer functions and (2) provides a methodology for calculating the number of officers necessary to deliver given service levels. The Legislature could then use this information to set target service levels (such as frequency of patrols and maximum acceptable response time). These target levels could subsequently provide a basis for future staffing adjustments.

The CHP completed the required study in 1991. The study provided a methodology to estimate staffing needs for the department, recommended service levels, and estimated that CHP officer staffing (at about 6,300 officers in 1990) fell about 2,000 short of what was needed in order to deliver recommended service levels.

Due to funding limitations, the administration did not request funding at the level identified by CHP's staffing study. In fact, the staffing methodology has never been used as the basis for a budget request related to officer staffing.

Trends in Workload Measures of CHP's Core Mission. In general, the core mission of CHP officers is to ensure safety and enforce laws on the state's highways and county roads in unincorporated areas. The potential workload associated with these responsibilities can be estimated in a variety of ways. For example, CHP commonly uses the total number of vehicle miles traveled (VMT) by motorists on California highways as a relative indicator of workload. The department believes this is an important workload measure because it assumes that with a larger number of VMT in a given year, one could expect a proportionate increase in accidents, moving violations, breakdowns, and other situations requiring CHP services. Since 1991, VMT increased 16 percent, compared with a 5.9 percent increase in CHP officers.

Several other workload measures also show increases, albeit smaller ones, since 1991. The number of licensed drivers in California increased by 3.3 percent, and the number of registered vehicles increased by 5 percent.

Department's Mission Has Expanded. Over time, CHP's mission has grown beyond its core role of ensuring safety on the state's highways and roads. Figure 2 (see next page) lists other major responsibilities assigned to CHP officers. The expansion of CHP's mission commits an increasing portion of departmental resources to tasks not directly related to traffic safety and enforcement.

Department Identifies Major Staffing Shortfall for Target Level of Services. During the 1990s, CHP grew by about 400 officers in order to accommodate new statutory duties and other workload increases. However, in CHP's view, these increases did not raise its level of service for road patrol because (1) a number of these staffing increases were not directly related to traffic safety and enforcement and (2) increased traffic safety workload absorbed the new staff.

As it did in 1990, the department continues to estimate that it would require approximately 2,000 additional officers to meet its minimum target service levels for road patrol.

Figure 2

California Highway Patrol Responsibilities Beyond Traffic Safety

Additional Responsibilities
• Provide security for state and legislative employees and state property.
• Prevent and investigate passenger and commercial vehicle thefts.
• Inspect commercial vehicles.
• Conduct community outreach programs to non-English-speaking persons.
• Provide backup to local law enforcement authorities.
• Educate growers, farmers, and farm labor vehicle owners about farm labor vehicle certification requirements.

Legislature May Want to Reexamine CHP's Level of Service. We believe that the desired level of CHP service is a policy matter to be decided by the Legislature. In the absence of an explicit determination by the Legislature of service level targets, it is difficult to determine whether current patrol staffing levels ought to be enhanced. Given that CHP maintains that its current service level falls short of its target level, the Legislature may want to reexamine whether the current level of service by CHP is the appropriate one.

In order to determine target service levels, the Legislature would need information on the cost of additional officers and the services they can provide. With the aid of such information, the Legislature could then consider whether an augmentation of officers might be warranted, and determine how these resources ought to be allocated to achieve the target level of service. In the following section, we suggest one method to obtain such information.

Pilot Should Be Broadened to Provide Information On CHP Service Levels

The budget proposes 35 new officers. We recommend approval of 20 positions proposed to implement two new programs created by recent legislation. However, we recommend that the proposal to add 15 motorcycle officers for a congestion relief pilot program be modified to focus instead on the officers' effect on overall level of service. We further recommend budget bill language to define the pilot and require an evaluation report.

Governor Proposes 35 New Officers for 2000-01. The budget proposes the addition of 35 officers, for the following purposes:

- Ten officers to implement the farmworker vehicle safety program, created by Chapter 557, Statutes of 1999 (AB 1165, Florez).
- Ten officers to investigate organized automobile fraud activity, as part of a program created by Chapter 885, Statutes of 1999 (AB 1050, Wright).
- Fifteen motorcycle officers for a pilot program to reduce traffic congestion in the San Francisco Bay Area and the Los Angeles region.

New Statutory Duties Should Be Funded. We recommend approval of the department's request for 20 positions to carry out the two new legislatively mandated programs. Without these augmentations, implementing those programs would require a diversion of resources from other CHP programs, such as traffic enforcement.

Pilot Program Should Be Better Defined. The department proposes to launch a two-year pilot program to deploy 15 new motorcycle officers on congested freeways in the San Francisco Bay Area and the Los Angeles region. These officers would patrol during peak commute hours, and would focus exclusively on relieving traffic congestion by assisting disabled vehicles and helping to remove road obstructions. The officers would coordinate with CHP-supervised roaming tow services, which are currently working these same freeways through the Freeway Service Patrol (FSP) program. The FSP is an existing program operated by Caltrans and CHP to provide free roadside assistance to stranded motorists on selected highways during commute hours.

While we agree that reducing traffic congestion is an important goal, we believe the proposed pilot program has significant shortcomings:

- ***Focus of Pilot Is Unclear***. To measure the effectiveness of these officers in relieving congestion, the department plans to measure the extent to which these positions reduce congestion-related traffic collisions. However, the main task of the new officers is to *respond to* accidents and other freeway incidents after they have *already* occurred. While prompt clearing of accidents may reduce the likelihood of secondary collisions, it would seem that other measures, such as average response time to accidents or average traffic speed on targeted freeways, would better capture the meaning of "congestion relief."
- ***Officers' Shifts Do Not Correspond With Pilot's Hours***. The department proposes that the new officers will be focused "solely

on congestion relief." However, officers work eight-and-a-half hour shifts and the pilot program is limited to "peak commute hours." Even accepting the somewhat generous definition of peak commute hours to extend from 6:00 A.M. to 11:00 A.M. and 2:00 P.M. to 7:00 P.M., the proposal does not account for the remaining three hours of each of the shifts affected by the proposed pilot.

- ***"Congestion Relief" Activities Difficult to Separate From Other Duties.*** The proposed pilot suggests that the task of responding to accidents and clearing road obstructions can somehow be compartmentalized from the other routine duties of traffic officers. However, it is unlikely that performing such tasks could occupy an officer for each entire shift. Moreover, it is unrealistic to expect an officer to ignore other incidents that he or she may encounter, such as a speeding or unsafe driver, simply to remain available to respond to a traffic obstruction.

LAO Recommendation. For these reasons, we recommend that the pilot be modified. Specifically, we recommend that the 15 officers be deployed as regular patrol officers, without limiting their focus to traffic congestion or their hours to peak commute times. (We anticipate that officers will respond to accidents and other events according to the department's existing protocol.) The focus of the study should be on how the presence of additional officers affects all major service categories, including traffic enforcement and motorist assistance. In this way, the department could collect valuable data that would help in quantifying staffing needs to achieve specified service levels. We further recommend that the department incorporate results of the pilot into a report which includes an evaluation of how levels of service for major patrol activities could be affected by the addition of officers.

Accordingly, we recommend adoption of the following budget bill language:

> 2720-001-0044. Of the funds appropriated in this item, $1,664,000 shall be used for the support of 15 officers to participate in a pilot program designed to measure the effect of additional officers on California Highway Patrol (CHP) service levels. At the conclusion of the pilot, the department shall prepare a report evaluating the pilot, and shall submit the report to the Legislature by January 10, 2003. In addition to evaluating the effect of additional officers on response times and other service measures, the report shall (1) document current service levels for the traffic and nontraffic safety portions of CHP activities, (2) identify the main factors that result in workload changes, and (3) make recommendations as to how additional officers could be utilized to effectively and cost-efficiently enhance CHP's road patrol service throughout the state.

Protective Services to Be Funded Directly

The current system of reimbursement for the California Highway Patrol's protective services program is confusing, controversial, and inefficient. We concur with the budget proposal to eliminate that system and shift to direct funding of the program. We recommend, however, that the General Fund, rather than the Motor Vehicle Account, be utilized.

Until 1995, protective services for state property and employees were provided by the California State Police (CSP). The CSP allocated its costs to other departments, which funded CSP through reimbursements. When the CHP absorbed CSP and its protective services mission in 1995, it continued this reimbursement-based funding mechanism. We have noted in the past that this method is inefficient and its cost-allocation methodology causes controversy and confusion among the departments. (Please see our *Analysis of the 1999-00 Budget Bill*, pp. A-45—A-49.)

The 2000-01 budget proposes to fund CHP's protective services costs directly. Specifically, $29.5 million would be appropriated directly to CHP to provide protective services. About half ($15 million) of this money would come from the General Fund, and the remainder ($14.5 million) would come from the MVA.

MVA Not Appropriate Funding Source. The MVA is funded primarily out of proceeds from vehicle registration, driver license issuance, and other vehicle-related services. In general, the State Constitution and state law require that these funds be used for enforcing laws related to vehicles or the use of highways. Since CHP's protective services functions are not clearly linked to such purposes, the MVA traditionally has not provided a significant share of funding for protective services.

We believe that allocating half of CHP's protective services costs to the MVA is inconsistent with the intended uses for the fund. Moreover, we believe the protection of state dignitaries, employees, and property provides a general benefit to the entire state. Accordingly, we recommend that the entire cost of providing protective services ($29.5 million) be provided by the General Fund.

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 collects certain fee and tax revenues for state and local agencies.

The budget proposes total expenditures of $632.7 million for support of DMV in 2000-01. This represents an increase of $23.5 million, or 3.9 percent, above estimated current-year expenditures. The increase primarily reflects general workload increases. (These figures do *not* include the administrative cost of issuing smog impact fee refund checks, which the Governor's budget display estimates to be $6.3 million in 1999-00 and $4.7 million in 2000-01.)

About $330 million (52 percent) of the department's total support will come from the Motor Vehicle Account and $246 million (39 percent) from the Motor Vehicle License Fee Account. The remaining support will be funded primarily from the State Highway Account and reimbursements.

Cost of Fee Refunds Should Be Included in Legislation

We recommend that funding for the cost of issuing smog impact fee refunds be included in the legislation that authorizes the refunds.

Although not included in the budget bill, the Governor's budget display for DMV includes $4.7 million and 75.4 personnel-years (PYs) to issue refunds of smog impact fees collected between 1990 and 1999. The budget display also assumes DMV would incur refund-related costs of $6.3 million in the current year, for a total administrative cost of $11 million over the two years.

The smog impact fee, which was levied on vehicles originally purchased outside California, was declared unconstitutional by the Third District Court of Appeal in October 1999. The Governor proposes to have DMV refund these fees with interest, and is proposing legislation to implement the refund program. The estimated cost of the refunds, $665.3 million, is reflected in Item 9670 (Claims, Judgements, and Settlements).

Refund Program Will Be Legislatively Determined. The Legislature is currently considering several bills which would create a smog impact fee refund program. There are significant differences among the bills as to how, and by which state department, the fees would be refunded.

Because it is not clear at this time how the refund program will be administered, we believe that any appropriation for administering the refunds should be based on the particular program that is created and should be included in the enabling legislation.

Computer Projects in Disarray; Department Proposes Still More Projects

The Department of Motor Vehicles (DMV) continues its decade-long effort to try to replace its major computer databases. After earlier failures and delays, these projects now appear to be encountering new problems. We cannot advise the Legislature on the full extent of these problems, however, because DMV has failed to provide a mandated report on the status of the replacement effort. Meanwhile, the department proposes to undertake other discretionary computer projects. We recommend deletion of $4.5 million for budget-year funding for a smaller information technology project because it too is encountering cost overruns and schedule slippage. We also recommend the Legislature request the Bureau of State Audits to perform an audit of the department's database replacement projects.

Since 1988, DMV has been attempting to replace its major database systems, which are about 30 years old, obsolete, and increasingly difficult and expensive to maintain. The first effort to replace these systems was abandoned as a failure after six years and the expenditure of $50 million. After a major reassessment of DMV's business needs and potential technological solutions by an outside consultant, the department has embarked on a second replacement effort. Since it began in 1996, this second effort has been subject to revisions and delays. (Please see our write-up on this issue in our *Analysis of the 1999-00 Budget Bill*, pp. A-51—A-57.)

Unrealistic Schedules, Year 2000 (Y2K) Concerns Discussed During 1999-00 Budget Hearings. During hearings on the 1999-00 budget, the

Legislature expressed concerns about DMV's ability to maintain its proposed schedule for these projects. It was noted that several important deadlines had already been revised as DMV encountered unanticipated problems. Further, the department was asked how potential delays in its Y2K readiness efforts could affect progress on the database projects. Although DMV asserted that its Y2K efforts were on schedule, the Legislature decided that it needed better and more frequent updates on DMV's progress. Accordingly, the Legislature adopted supplemental report language requiring DMV to submit quarterly reports on its major database replacement projects, beginning December 1, 1999.

Report Not Provided. The department did not provide the first report as scheduled. At the time this analysis was prepared in February 2000, the report had still not been received and DMV could not provide an estimate as to when it might be forthcoming. For this reason, details of the department's database replacement efforts are not known.

New Delays Indicated. Although the Legislature has not received any quarterly report, our discussions with DMV indicate that the department is encountering new problems and delays in advancing its database replacement efforts. As shown in Figure 1, all three of the major database projects have experienced serious delays. One project (occupational licensing) has been suspended indefinitely, while the vehicle registration project has been delayed about two years and the driver license project is behind by more than a year.

Financial Systems Redesign Also Delayed. In addition to the three major database systems discussed in Figure 1, another information technology (IT) project being undertaken by DMV is the redesign and replacement of its financial accounting system. This system tracks and manages the various funds that are collected and distributed by the department. This project is much smaller in scope and cost than the major databases. Nevertheless, DMV appears to be experiencing cost and scheduling overruns with it as well.

Specifically, the 1999-00 budget provided $4.9 million for DMV to complete the first phase of a four-phase replacement schedule for the financial accounting system. The DMV now reports that implementation of this phase was delayed due to Y2K preparations. The department now indicates that Phase I is "tentatively scheduled for completion in June 2001."

The department expects to spend the full $4.9 million in the current year. For 2000-01, it is requesting $4.5 million to complete Phase I (and to advance Phases II and III). It is not clear what portion of the $4.5 million will be spent on Phase I. Nevertheless, we consider that portion to represent a cost overrun, since the 1999-00 funding was expected to complete Phase I.

Figure 1

DMV's Database Replacement Schedules Falling Further Behind

Schedule (Per 1998 Finance Letter)	Schedule (Per 1999-00 BCP)[a]	Estimated Schedule (January 2000)	Comments
Occupational Licensing			
Complete new system by 10/31/99	No change in schedule	Project suspended indefinitely	Department asserts completing project would require funds "above approved spending authority and would not result in a benefit worth the estimated expenditure of funds"
Vehicle Registration			
Award system development contract by August 1, 1999	Contract to be awarded May 30, 2000	Contract to be awarded "near the beginning of 2001-02"	Department asserts alternative procurement has been delayed since May 1999 due to Y2K delays
Driver Licensing			
Begin reengineering of database "approximately January 1999"	Alternative procurement to begin March 1, 2000	Alternative procurement delayed; no new estimate	Budget bill language restricts department from beginning alternative procurement until alternative procurement for vehicle registration database has been completed

[a] BCP: Budget change proposal.

Organization, Oversight Needed. The DMV's computer replacement efforts have been hampered by unrealistic schedules, inadequate project oversight, faulty decision making, and poor communication. We are concerned that DMV has undertaken projects on a scale and on a schedule that are beyond its capabilities.

We are especially concerned that the department has failed to respond to the Legislature's repeated requests for accurate information on a regular basis concerning the status of the department's efforts. Without this information, the Legislature has been unable to adequately evaluate the department's requests for additional funding.

The DMV Attempting Additional New Projects. Undeterred by its delays and difficulties with its major computer databases, DMV is undertaking new and risky computer projects. For example, as discussed below, the department plans to invest millions of dollars in a web-based vehicle registration project. It also is conducting pilot projects for online appointment scheduling, e-mail-enabled refund requests, and computer-based "queuing" in district offices, among others. Each of these projects, it should be noted, has encountered its own difficulties.

We believe it is not prudent for DMV to embark on new projects for three reasons. First, DMV should be dedicating its IT resources to completing the long-delayed replacement of its mission-critical database systems. Second, DMV has not demonstrated an ability to pursue IT projects in an effective manner. And finally, while Internet-based solutions to DMV's business practices may some day be cost-effective and convenient to drivers, this is not currently the case. We believe such projects should await the development of proven technology and processes.

Recommend Deletion of Funding. We believe that the DMV's major computer projects need to be refocused and prioritized. As a first step, we recommend that the Legislature delete the $4.5 million the department is requesting to continue its financial system redesign project. Funding for this project should not be resumed until, at a minimum, the department (1) provides a written, detailed report that describes the projected costs and schedule for each of the project's phases; (2) commits to providing *monthly* written updates on the project's cost, schedule, and success; and (3) provides the overdue reports on its major database replacement projects, with clarity and detail that satisfies the Legislature.

Audit Could Help to Identify Solutions. Because DMV's major databases are necessary for critical law enforcement and revenue collection functions, it is imperative the replacement effort be completed successfully and expeditiously. Given DMV's history of management problems with this project and its inability to provide the Legislature with timely information on its efforts, we think the project should be evaluated by an independent auditor. Specifically, we recommend that the Legislature request the Bureau of State Audits to perform an audit of the department's database replacement projects and (1) provide an assessment of the causes for the repeated delays and cost overruns and (2) propose a solution to the project's current difficulties. If the $4.5 million is deleted from the department's financial system project, a portion of this money could fund the audit.

We believe that such an audit could help the Legislature and the Governor to develop an appropriate strategy for ensuring that future DMV efforts are successful, timely, and effective.

$14 Million for Proof of Insurance Program; Department Fails to Submit Program Evaluation

The budget proposes $14.1 million and 248 personnel-years for the Department of Motor Vehicles to verify that persons registering vehicles comply with the state's "financial responsibility" law, usually by maintaining automobile insurance. However, the department has not submitted a legislatively required report on (1) the impact of this law and (2) a pilot project to allow the electronic transfer of insurance information. We recommend that the Legislature delete funding for this activity until the department provides this information.

Chapter 1126, Statutes of 1996 (AB 650, Speier) required that automobile registration applications and renewals be accompanied by proof of financial responsibility. Collecting, processing, and verifying these documents is expensive and time-consuming. The DMV expends about $15 million and 300 PYs on this process annually.

Financial Responsibility Requirement Extended Indefinitely. Under Chapter 1126, the program was to sunset on January 1, 2000. However, the law was extended indefinitely by Chapter 880, Statutes of 1999 (SB 652, Speier).

Electronic Transfer of Data May Be More Efficient. Rather than manually process and verify paper documents containing insurance information, some have suggested that DMV could more efficiently receive insurance information directly from insurance companies through an electronic transfer of files. Not only could this reduce fraud, but DMV has estimated that its costs of administering the financial responsibility program could be reduced by half. Others, however, have expressed concern about the reliability of such data transfers.

In order to evaluate these issues, DMV in 1998-99 conducted a pilot of an electronic data transfer program with several insurance companies. The Legislature had hoped to use this information in deciding how to continue the financial responsibility program, if at all, beyond its January 1, 2000 sunset date. Accordingly, the Legislature, in the *Supplemental Report of the 1998 Budget Act*, required that DMV submit a report on its effectiveness in carrying out the program, including an evaluation of the electronic transfer pilot. The report was due April 1, 1999, but had not been submitted at the time this analysis was prepared—about ten months later.

The DMV's Online Registration Program Relies on Electronic Transfer. The department plans to offer online vehicle registration through its website beginning in spring 2000. Online registration will require that proof of financial responsibility be transferred electronically from insurance companies to DMV. Only three insurance companies, representing about one-fifth of the state's vehicles, are prepared to transfer insurance data in this way.

Because the success of online registration is partly dependent on the cost and effectiveness of electronic insurance data transfer, the report required by supplemental language, if provided to the Legislature, could help facilitate an evaluation of the potential benefits, costs, and risks of online registration. (We discuss DMV's online registration proposal in more detail below.)

Full Proof-of-Insurance Administrative Funding to Be Restored. The 2000-01 budget proposes $14.1 million to provide full-year funding for insurance verification activities. However, without the information required by the supplemental report requirement, the Legislature cannot determine (1) how effectively DMV administers the program and (2) whether it would be desirable to eliminate the manual processing of financial responsibility forms and require electronic transfer of insurance information.

In addition, the report on the electronic transfer pilot has implications for the effectiveness and cost of the proposed online vehicle registration project. Vehicle registration is one of DMV's core missions. It is necessary for the Legislature to be informed of the feasibility and cost of electronic data transfer, as it relates to online registration, departmental administrative costs, and motorist convenience.

Recommend Withhold Funding, Pending Report. We believe it is difficult for the department to justify its costs of administering the financial responsibility program without providing the mandated report evaluating its administration of the program. Not only is the report necessary for the Legislature's oversight of the implementation of Chapter 1126, but it would facilitate the Legislature's ability to evaluate emerging opportunities to improve the department's business practices with technology. For example, if electronic transfer of insurance data and online registration are to be widely utilized, it should be possible to reduce funding for some of DMV's administrative costs. We therefore recommend the Legislature delete $14.1 million for DMV's administration of the financial responsibility program until the Legislature has received and had an opportunity to review DMV's report evaluating the program and pilot.

Registration-on-the-Web Tangled in High Costs, Technical Limitations

The Department of Motor Vehicles plans to allow limited vehicle registration via the Internet. We believe this project is justified neither by cost nor by convenience.

As noted above, DMV has begun a pilot project to permit the registration of vehicles through the Internet. The department has redirected current-year funding to pay for some startup costs, although a portion of the startup costs are being paid by a business partner sharing the project with DMV. It is unclear what financial obligations, if any, this outside contribution imposes on DMV.

Online Registration Available to Limited Number of Vehicle Owners. The department expects that certain vehicle owners would be able to register their vehicles online beginning April 1, 2000. Because the transaction would be entirely electronic, the only persons who could participate would be those who (1) have access to the Internet, (2) have a valid credit card with which to pay registration fees, and (3) possess automobile insurance issued by one of the three companies set up to electronically transfer insurance data to DMV. About one-fifth of the state's automobiles meet this third criterion.

Project Not Cost-Effective. Unlike most IT proposals, the online registration project is not intended to save money. Indeed, the department acknowledges that the project "will not result in process cost savings when compared to the mail-in process from which it is likely to draw customers." In other words, DMV can process mailed-in registration forms more efficiently than it expects to process Internet-based registration.

The department estimates that developing the program will cost \$2.2 million, and that ongoing annual costs will be \$3.8 million. Much of the ongoing costs relate to programming and maintenance of computers. In addition, based on the department's estimate that about 350,000 people will renew their registrations online each year, \$1.3 million of the ongoing costs will be in the form of transaction fees charged by credit card companies to the state. The department believes that passing on those fees (equal to 1.8 percent of each transaction) to customers would discourage the use of Internet registration, and several major credit card companies will not permit the fees to be passed on to consumers.

We note, however, that the department currently charges a fee of \$3 for vehicle registration transactions conducted over the telephone, which requires the use of a credit card. We believe that applying a similar fee to online registration would be appropriate. As we have noted in previous *Analyses* (see for example our *Analysis of the 1994-95 Budget Bill*, p. A-58), we believe it is not appropriate for the state to absorb these fees. Instead, they should be borne by customers who are willing to pay what amounts to a "convenience fee."

Project Adds Little Convenience for Customers. Online vehicle registration provides little advantage over mail-in registration. For the price of a stamp, vehicle owners can mail their registration forms to DMV and receive their registration stickers by return mail. Online registration is unlikely to be any easier for a customer to perform than mail-in registration. Both online and mail-in registration can be performed, without waiting, at any time of the day or night and any day of the week. Online registration would presumably arrive at DMV more quickly than registration that is mailed, but processing activities would probably take similar amounts of time.

We note further that only about one in five vehicle owners will be able to take advantage of online registration, since only this proportion of vehicles are insured by companies able to electronically transfer insurance data to DMV. Since a number of this group may have reservations about providing credit card data over the Internet, and/or may have a low level of comfort or experience with computers, we expect that the actual number of vehicles registered online may be quite low. The DMV estimates that only about 1.2 percent (350,000) of all registration renewals will be conducted online for the first two years of the program.

Online Registration May Become Practical in the Future. We recognize that many governmental activities, including automobile registration, could eventually be widely conducted through the Internet. Such "e-government" transactions have the potential for customer convenience and substantial cost savings, particularly if they are accompanied by substantial reductions in governmental personnel, building, and other overhead costs. We note, however, that DMV's online registration project foresees no such reductions in overhead, and will only be available to a small portion of the state's vehicle owners.

Department Expects to Propose Finance Letter. While no new money has been appropriated for this project in 1999-00, the department indicates that it expects to request several million dollars for 2000-01 through a finance letter to be submitted in spring 2000.

Project Is Premature for Several Reasons. We believe the online registration project is premature for several reasons. Necessary technology, administrative changes, and customer interest have not yet materialized. In addition, the project diverts departmental resources from more crucial IT projects (such as upgrading the three mission critical databases). Moreover, the project is being undertaken at a time that DMV's management of its computer projects is in disarray.

Backlog of License Suspension Hearings Continues

For the past several years, the Department of Motor Vehicles has been unable to meet statutory time frames for holding administrative hearings on certain license suspension actions. The Legislature has directed the department to provide information relating to this issue. We withhold recommendation on $3.3 million requested to address hearing backlogs until the department provides additional information, including the mandated report which is due March 1, 2000.

State law prohibits persons under the influence of drugs or alcohol from driving a motor vehicle. Legislation enacted in 1989 provides for the automatic suspension or revocation of a driver license if either (1) a chemical test indicates the presence of illegal levels of alcohol or drugs in a driver's blood, breath, or urine; or (2) a driver refuses to take such a test when so ordered by a peace officer. In such cases, the arresting officer can confiscate the driver's license. However, the suspension or revocation does not become effective for 30 days, during which time the driver is permitted to drive.

If a driver requests an administrative hearing on the suspension or revocation order within ten days of the arrest, statute requires DMV to hold the hearing before the order becomes effective (that is, within 30 days of the arrest). This process protects (1) public safety by facilitating the timely removal of dangerous drivers from the roads and (2) due process by ensuring that drivers have an opportunity to challenge improper suspensions. The department ultimately reinstates licenses in approximately one-fourth of these hearings.

The DMV Fails to Meet Deadlines. As shown in Figure 2(see next page), DMV's ability to meet the statutory deadline for driving-under-the-influence (DUI) administrative hearings has declined dramatically in recent years. Currently, only about one in five hearings is held within 30 days of arrest. The average length of time before a hearing can be held is 46 days. (This is down slightly from 52 days in 1998-99.) Such delays increase the length of time potentially unsafe drivers are able to legally drive, and postpone drivers' access to a potential remedy for improper license suspensions.

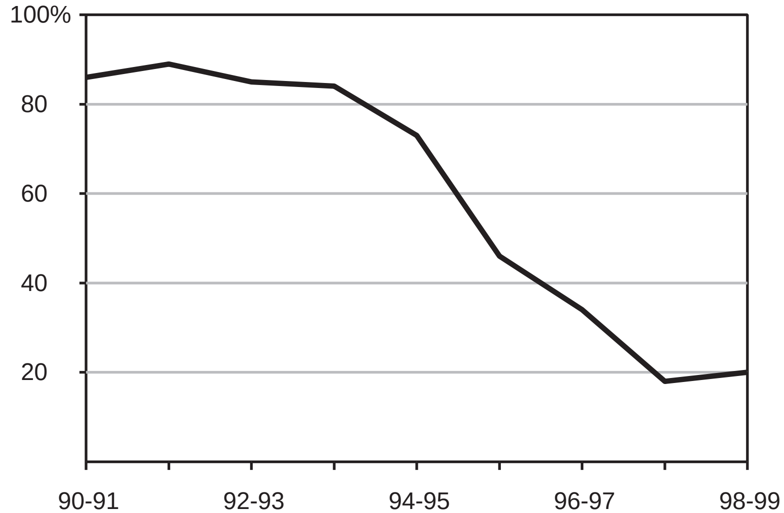
The DMV asserts that it is unable to schedule hearings in a timely fashion because it does not have enough staff to accommodate the inflow of hearing requests. To address the backlog and ongoing hearing workload, it is asking for an increase of $3.3 million and 56 PYs for the budget year. According to DMV, the situation resulted from four factors.

First, the statutory time frame for DUI hearings was reduced from 45 days (when the program began in 1990) to 30 days (in 1993). We note, however, that while this shortened the length of time before a hearing could be held, it had no effect on the *number* of hearings DMV has to schedule. Moreover, DMV's on-time rate for hearings in the first year of the 30-day requirement (84 percent) was virtually unchanged from the previous year (85 percent).

Figure 2

DUI Hearings Completed Within Statutory Timeframes

1990-91 Through 1998-99



Second, the department reduced staff in the driver safety program by 60 positions in recent years, including a number of hearing officers, in conjunction with an office automation project and other efforts intended to increase efficiency. However, the department now reports that these measures have failed.

Third, while the number of DUI arrests has declined by about a third since the implementation of the mandatory suspension laws, the number of arrestees requesting a hearing has increased. According to DMV, the number of DUI hearing requests has increased from about 35,000 in 1996-97 to about 48,000 in 1998-99. The department did not provide data for earlier years.

Fourth, the department asserts that the typical hearing is becoming more complex as an increasing portion of drivers (currently about 30 percent) are being represented by legal counsel. The legal challenges, objections, and other legal motions made by legal counsel tend to slow down the hearing process, and require greater preparation on the part of DMV hearing officers.

While the preceding information suggests that DMV's inability to meet statutory time frames stems from a growing gap between workload and personnel resources, the lack of complete historical data on staffing levels and hearing workload prevent the Legislature from evaluating whether the size of the requested augmentation is appropriate.

Other License Suspension/Revocation Actions Also Not Timely. Only about half of the hearings DMV holds on license actions are related to DUI suspensions. The other half include, for example, hearings on drivers who may be physically or mentally unable to drive safely, drivers who have accrued a large number of moving violations, and drivers who have committed fraud in obtaining their license. Unlike the DUI hearing process, however, there is no statutory time limit on DMV to hold the other hearings. As a consequence, drivers whose licenses were suspended or revoked for non-DUI reasons may wait even longer for a requested hearing.

Hearing Delays Compromise Public Safety and Due Process. If a driver arrested for DUI requests a hearing, the mandatory license suspension/revocation does not go into effect until after DMV holds the hearing. The delay of these hearings beyond 30 days thus allows a potentially dangerous driver to remain on the road for a longer period, thereby threatening public safety.

If a driver's license is suspended or revoked by DMV for a different reason—such as evidence of diminished physical or mental ability to drive—the suspension or revocation action remains in effect unless overturned at a hearing. While this helps to protect the motoring public, a delay in scheduling a hearing in such cases thus delays the driver's opportunity to challenge a possibly improper administrative action.

Further Information Needed to Fully Evaluate Proposal. We believe that increasing DMV's ability to hold timely administrative hearings of license actions would enhance public safety and strengthen drivers' due process rights. Our preliminary review suggests that an increase in the department's staff in this area would provide a reasonable response to the hearing backlog. However, without additional information about how different staffing levels historically have been able to respond to workload, we cannot determine whether the proposed *level* of increase is warranted.

After deliberating on the DUI hearing backlog in 1999-00 budget hearings, the Legislature directed DMV to provide a report on the subject by

March 1, 2000. This report is to include current and historical data on its hearing activities, as well as explain how the department will eliminate its backlog of cases and ensure that future cases are heard within their statutory time frames.

Accordingly, we withhold recommendation on the budget request pending receipt of the historical workload information, as well as the March report.

FINDINGS AND RECOMMENDATIONS

Transportation

Analysis Page

Crosscutting Issues

Governor's Transportation 2000 Initiative

A-16 ■ **Governor's Initiative Would Substantially Expand 2000 State Transportation Improvement Program.** The administration proposes to program an additional $3.6 billion worth of projects in the 2000 STIP through a combination of bonds backed by future federal funds and more aggressive management of state funds. We question whether the state and local agencies can deliver a program that is about 23 percent larger than the current one.

A-19 ■ **Availability of Projects for Expanded STIP Questionable**. It is highly unlikely that Caltrans and local agencies have sufficient planned projects ready to be programmed into an expanded STIP. Waiving required planning documents could result in future project cost changes and schedule delays.

A-20 ■ **Initiative Would Necessitate Significant Expansion of 20.** Depending on the mix of projects that would be programmed in the 2000 STIP, Caltrans would have to expand its capital outlay support staff significantly—from between 4,000 personnel-years to over 8,000 personnel-years mainly in the next two years—if the projects are to be delivered in the 2000 STIP period.

A-21 ■ **Initiative's Potential for Congestion Relief Depends on Types of Projects.** Certain transportation projects, particularly system management projects that focus on managing

Analysis Page

highway congestion, could relieve some congestion in the short term.

A-21 ■ **Environmental Streamlining Proposal Lacks Any Substance.** The initiative proposes to streamline the environmental review process, but fails to provide any substance. As a result, the impact on project delivery cannot be assessed.

A-22 ■ **Extending the STIP Has Merit.** The Governor's initiative proposes to extend the STIP period from four to seven years. This proposal has merit and would allow more projects to be developed sooner.

A-22 ■ **Use-It-or-Use-It Provisions Premature.** The budget proposes use-it-or-lose-it provisions for two types of local transportation funds—federal transportation funds and gas tax revenues. With respect to local federal funds, we find the proposal to be unwarranted given recent legislation. With respect to local gas tax revenues, we find that the proposal may exacerbate deferred maintenance of local streets and roads. Accordingly, we recommend against adoption of these proposals.

Condition of Transportation Funds

A-25 ■ **State Highway Account Cash Balance Approaching $2 Billion, but Fully Committed to Projects.** The State Highway Account balance has grown continuously since 1993-94. To the extent more projects are delivered, as sought by the Governor's initiative, cash balance in the account would decrease. However, this is unlikely to occur in the near term.

A-27 ■ **Projected Shortfall in Public Transportation Account.** The Public Transportation Account is projected to have a shortfall of about $53 million over a four-year period, from 2000-01 through 2003-04. Beyond 2003-04, the shortfall would increase. Recommend the adoption of a constitutional amendment to relax Article XIX of the State Constitution to provide more flexibility in funding public transportation improvements.

Analysis Page

Legislative Overview

A-31 ■ ***Departments Disregard Legislative Directive.*** Recommend the Legislature withhold action on the budget of the Secretary for Business, Transportation and Housing pending submittal of previously requested supplemental reports by the agency and its constituent departments. Recommend denial of requests where a required report would have provided supporting information for the request. Further recommend that the Legislature disapprove questionable requests that lack adequate justification instead of adopting supplemental language requiring a future report.

Department of Transportation

Highway Transportation

A-35 ■ **Budget Proposes Moderate Increase in Highway Program.** The budget proposes expenditures of $6.5 billion for the highway transportation program, about $367 million, or 6 percent more than estimated current-year expenditures.

A-37 ■ **Capital Outlay Support Request Will Be Amended**. Withhold recommendation on $962 million and 10,898 personnel-years of staff to deliver projects in the 2000 State Transportation Improvement Program (STIP) because Caltrans expects to revise its capital outlay support request in May to accommodate changes in workload.

A-37 ■ **Seismic Retrofit Program Relatively on Schedule; Toll Bridge Repairs Delayed.** The department estimates that Phase 1 of highway seismic retrofit work will be completed by March 2000, while most of phase 2 will be completed by the end of 2005. Seismic retrofit of three of the seven state-owned toll bridges has been delayed. The department now anticipates the retrofit of the state's toll bridges to be completed in 2006.

A-39 ■ **Budget Request for Storm Water Management Premature.** Recommend adopting budget bill language to provide $41 million for compliance with a federal storm water discharge permit contingent upon approval of a required

Analysis Page

management and implementation plan by the State Water Resources Control Board.

Project Delivery

A-43 ■ **Caltrans Project Delivery in 1998-99: Performance Improved.** Caltrans delivered over 90 percent of projects planned for delivery in 1998-99. Additionally, the department delivered many projects that were planned for delivery in future years. As a result, the department spent a record $2.1 billion on transportation projects in FY 1998-99.

A-45 ■ **Local Delivery of Federally Funded Projects.** For various reasons, local agencies have consistently underspent their share of federal funds in recent years. Although they improved in 1998-99, Caltrans still had to spend about $350 million of the local share of federal funds to prevent the state's loss of these funds.

A-46 ■ **Current-Year Actions to Speed up Project Delivery.** The Legislature took steps in 1999 to improve project delivery. Recommend that the department report at budget hearings on the status of a user-friendly local assistance manual.

A-48 ■ **Caltrans Unable to Fill Project Delivery Positions.** Caltrans currently has a nine percent vacancy rate in capital outlay support and a 30 percent vacancy rate in the local assistance program. Recommend that the department report at budget hearings on (1) vacancy rates in capital outlay support and local assistance (2) reasons why the positions are difficult to fill; (3) steps the department is taking to address the problem.

A-49 ■ **Caltrans' Ability to Deliver Projects May Be Hampered by Project Management Practices.** Caltrans' use of project management is hampered by assigning too many projects to project managers who are given too little authority over their projects.

A-50 ■ **Caltrans Needs More Flexibility in Managing State and Federal Money.** Recommend the enactment of legislation to allow Caltrans and local agencies to swap and pool federal funds. Additionally, recommend relaxing the eligibility

Analysis Page

criteria for county share advances to ensure fuller programming of state transportation funds. Further recommend that (1) Caltrans report to the Legislature on whether the state meets a federal requirement that would allow it to be reimbursed for right-of-way activities begun before the approval of the environmental document and (2) Caltrans develop criteria for determining candidate projects for beginning right-of-way acquisition prior to final approval of the environmental document.

Environmental Streamlining

A-56 ■ **Caltrans Falls Behind Schedule in Environmental Review.** Caltrans completed only 10 of 36 environmental documents that were scheduled for completion in 1998-99. Delay in environmental review is often caused by lengthy federal review times and late involvement of state and federal resource agencies.

A-57 ■ **Administration Should Fill Positions in Resource Agency Expeditiously**. Caltrans has not yet completed negotiations for any of the resource agency positions approved for the current year to expedite project delivery. Recommend that the Resources Secretary and the Secretary for Business, Transportation and Housing report at budget hearings on actions they are taking to ensure that the agreements are promptly negotiated. Additionally, recommend that Caltrans report at budget hearings on whether more funds are needed to fully fund the 25 positions approved in the 1999-00 budget to review environmental documents.

A-58 ■ **Early Involvement Provisions of CEQA Should Be Strengthened.** Recommend the enactment of legislation to strengthen early involvement provisions of CEQA.

A-59 ■ **California Should Seek Delegation of Federal Authority and Early Involvement of Federal Permitting Agencies**. Recommend that California seek delegation of federal authority to review and approve environmental review documents. Additionally, recommend that California seek federal legislation to require that all relevant federal permitting

Analysis Page

agencies participate earlier in the federal environmental review process.

A-60 ■ **Caltrans Should Participate in Environmental Streamlining Pilot Projects**. Several states have had significant success participating in environmental review streamlining efforts. Recommend the enactment of legislation to require Caltrans, in coordination with the California Transportation Commission, to select six projects as pilots in an environmental streamlining process.

A-61 ■ **Caltrans Should Take Better Advantage of Existing Streamlining Opportunities.** Recommend that Caltrans make greater use of an existing agreement with the Federal Highway Administration designed to expedite environmental review for certain projects. Also recommend that the department renegotiate the current agreement to make it applicable to more projects. Finally, recommend the adoption of supplemental report language to require Caltrans to report to the Legislature on the use of this agreement.

Intercity Rail Program

A-64 ■ **Intercity Rail Service Has Increased, As Have State Costs.** The frequency of intercity rail service, measured by the number of daily round trips, has increased in recent years across all intercity rail corridors. Revenue has also increased, but not as quickly as state costs for providing rail service.

A-65 ■ **Intercity Rail Performance Standards Are Needed.** Recommend the adoption of supplemental report language requiring the Business, Transportation, and Housing Agency to develop multiyear intercity rail performance standards, and provide those standards to the Legislature as part of the annual budget request for the intercity rail program. Such information would assist the Legislature in determining whether additional capital investments are cost-effective.

A-69 ■ **Intercity Rail Service Costs Will Be Revised.** Withhold recommendation on $64 million requested to continue existing intercity rail services because more current cost estimates will be forthcoming from Amtrak in March 2000.

Analysis Page

A-69 ■ **Huge Future Capital Investments Anticipated; Budget Proposal Not Justified.** The draft ten-year rail plan covering 1999-00 through 2008-09 calls for a major expansion of intercity rail service of about $3.1 billion over ten years. Withhold recommendation on $30 million requested for new intercity rail trains pending receipt of information to be provided by the department, prior to budget hearings, on projections on ridership, cost, and revenues of future service.

A-72 ■ **Passenger Rail Policy Considerations for the Legislature.** Recommend enactment of legislation requiring the Department of Transportation to conduct a comprehensive rail study that incorporates various forms of rail—commuter, urban, and intercity—in order that the Legislature can determine what the state's role should be in funding passenger rail service.

Local Transit

A-75 ■ **Funding Rail Proposals Should Use Existing Process.** Recommend that the budget bill be amended to delete funding for individual projects and instead, recommend the amount be appropriated in a lump sum. Further recommend that budget bill language be adopted directing the California Transportation Commission to allocate funds to commuter and urban rail projects that follow project application and administrative review processes established under Proposition 116.

A-77 ■ **Bay Area Water Transit Authority Proposal Unrealistic. Reduce Item 2660-101-0046 by $6 Million.** Recommend reduction because the expectation that the authority's work would be completed in one year is unrealistic. Further recommend the adoption of budget bill language requiring the authority to present a work plan to the Legislature prior to the allocation of funds.

High-Speed Rail Authority

A-81 ■ **Planning Work of High-Speed Rail Authority Complete. Reduce Item 2665-001-0046 by $1 Million.** Recommend deletion of funding for the High-Speed Rail Authority because the authority expects to submit a business plan to the

Analysis Page

Legislature and Governor by the end of the current year, and no additional statutorily required work remains for the authority in 2000-01.

California Highway Patrol

A-83 ■ **Earlier Staffing Cuts Slowly Restored While Workload Has Increased.** The California Highway Patrol (CHP) estimates its current level of service to be significantly below its self-defined target level. The Legislature may wish to reexamine the appropriate level of service by the CHP.

A-86 ■ **Focus of Pilot Should Be Broadened.** Recommend approval of 20 positions for implementing two new programs created by recent legislation. Recommend budget bill language directing CHP to modify the proposal to add officers for a congestion relief pilot program and to report on impact of additional officers on the level of service.

A-89 ■ **Protective Services to Be Funded Directly. Reduce 2720-001-0044 by $14.5 Million; Increase 2720-001-0001 by $14.5 Million.** Recommend that the General Fund, rather than the Motor Vehicle Account, be utilized to fund protective services.

Department of Motor Vehicles

A-90 ■ **Cost of Fee Refunds Should Be Included in Legislation.** Recommend funding for smog impact fee refunds be included in authorizing legislation.

A-91 ■ **Computer Projects in Disarray.** The Department of Motor Vehicles' (DMV's) computer replacement projects are experiencing new delays, and DMV has failed to provide mandated reports explaining the status of those efforts. Recommend deletion of $4.5 million to ensure additional money is not wasted. Also recommend the Legislature request the Bureau of State Audits to perform an audit of the department's database replacement projects.

Analysis Page

A-95 ■ **$14 Million for Proof of Insurance; Department Fails to Submit Program Evaluation. Reduce Item 2740-001-0044 by $14.1 Million.** Department has not submitted a mandated report on (1) the impact of "financial responsibility" law and (2) a pilot project to allow electronic transfer of insurance information. Recommend deletion of $14.1 million for DMV's insurance verification activity until department provides report.

A-97 ■ **Registration-on-the-Web Tangled in High Costs, Technical Limitations.** Funding a pilot project to allow limited registration via the Internet is not justified by cost or by convenience to the public.

A-99 ■ **Backlog of License Suspension Hearings Continues.** Department proposes augmentation of $3.3 million to address its hearing backlog. Withhold recommendation until department provides additional information, including mandated report.