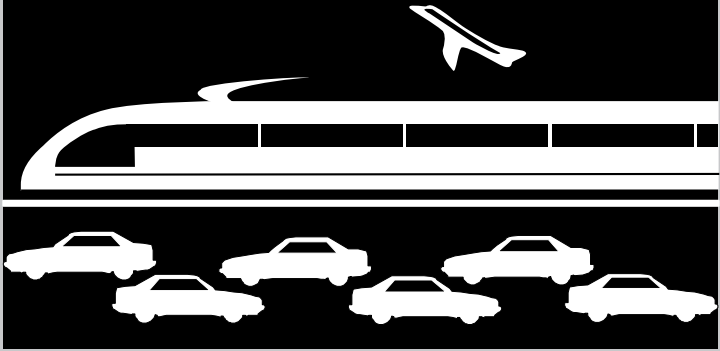


# TRANSPORTATION



60 YEARS OF SERVICE

2005-06 Analysis



# MAJOR ISSUES

## *Transportation*

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### **Transportation Funding Still Unstable**

- The budget proposes to use \$1.5 billion in transportation funding to aid the General Fund and reduce the General Fund's commitment to repay transportation loans in the near term. This would restrict already limited transportation resources and increase near-term funding uncertainty. We recommend that the administration provide information to enable the Legislature to determine (1) the proposals' impact on the size of the transportation program and (2) Traffic Congestion Relief Program funding requirements in 2005-06.
- The administration's proposal to prohibit suspension of Proposition 42 starting in 2007-08 would increase transportation funding stability in the long run. However, the proposal that General Fund expenditures, which include Proposition 42 funding, be cut across the board under certain circumstances would make transportation funding less stable. We have previously recommended a means of stabilizing transportation funding without using General Fund money. (See "Part V" of *The 2005-06 Budget: Perspectives and Issues*.)



### **Legislature Must Make Toll Bridge Decisions Soon**

- The administration recently estimated that completing the toll bridge seismic retrofit program requires an additional \$3.2 billion and recommended changing the Bay Bridge's design to save money. The Legislature must decide: (1) whether to redesign the east span and (2) how to fund the program's completion. Redesigning the Bay Bridge could save money, but also raises the risk of cost and schedule increases that could more than offset the savings. Funding should come from both state and local sources. The Legislature has several options regarding

the sources used and the amount to provide from each. (See “Part V” of *The 2005-06 Budget: Perspectives and Issues*.)



### **Misleading Caltrans Budget Weakens Legislative Oversight**

- The budget displays transportation funds inconsistently, making it impossible for the Legislature to determine Caltrans’ total expenditures in a given year or to accurately compare different years. The Legislature is unable to ascertain the magnitude of Caltrans’ project commitments or payments in any one year. We recommend the enactment of legislation requiring transportation expenditures to be displayed according to standard budget display requirements. (See page A-18.)



### **CHP Should Improve Road Patrol Services**

- Increases in traffic accidents on state roadways have limited the ability of CHP officers to conduct proactive patrol and provide enforcement and safety-related services to the motoring public. We recommend various actions to improve CHP’s effectiveness and operational efficiency, including modifying work processes and shifting certain responsibilities from uniformed to nonuniformed personnel. (See page A-34.)



### **CHP’s Disability Retirement Problems Need Attention**

- In response to recent news stories highlighting the CHP’s high workers’ compensation costs and incidence of industrial disability retirement, CHP issued a report detailing its findings and outlining a plan of action. While the department’s responses to date are reasonable first steps, we recommend that the Legislature direct CHP to further study and report on the nature of the problem as well as ways to assess the effectiveness of its actions in addressing these issues. (See page A-31.)



### **DMV Needs to Avoid Delays in Evaluating Unsafe Drivers**

- Recent staff reductions combined with workload increases could cause long delays in the Department of Motor Vehicles’ (DMV) evaluation of high-risk drivers in 2005-06. We recommend that the Legislature direct DMV to transfer responsibility for certain workload from driver safety offices to its customer-service field offices in order to reduce delays and to use staff resources more efficiently, and to report on the impact of the transfer. (See page A-38.)

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## *Transportation*

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# OVERVIEW

## Transportation

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**T**he Governor's budget shows total state-funded expenditures for transportation programs to be higher, by 11 percent, in 2005-06 than estimated current-year expenditures. This increase, however, is overstated due to a number of errors in the budget display. After adjusting for the errors, total state-funded expenditures for transportation are proposed to be \$7.8 billion in 2005-06. This is about \$300 million, or 4 percent, higher than estimated current-year expenditures. The increase is primarily from higher expenditures by the Department of Transportation (Caltrans) for support and capital outlay improvements, and additional support for the California Highway Patrol.

## EXPENDITURE PROPOSAL AND TRENDS

**Budget Proposal.** The budget shows total expenditures of about \$8.1 billion from all state funds for transportation programs and departments under the Business, Transportation and Housing Agency in 2005-06. This is an increase of \$810 million, or 11 percent, over estimated expenditures in the current year. The budget display, however, includes a number of errors, which the administration recognizes and plans to correct in the spring. Adjusting for the errors, state-funded expenditures for transportation are proposed to be \$7.8 billion—about \$300 million, or 4 percent, higher than current-year estimated expenditures. The increase includes primarily:

- \$174 million in additional state-funded support and capital outlay expenditures by Caltrans.
- \$54 million in additional support for the California Highway Patrol (CHP).
- \$20 million in additional funding of the State Transit Assistance (STA) program.

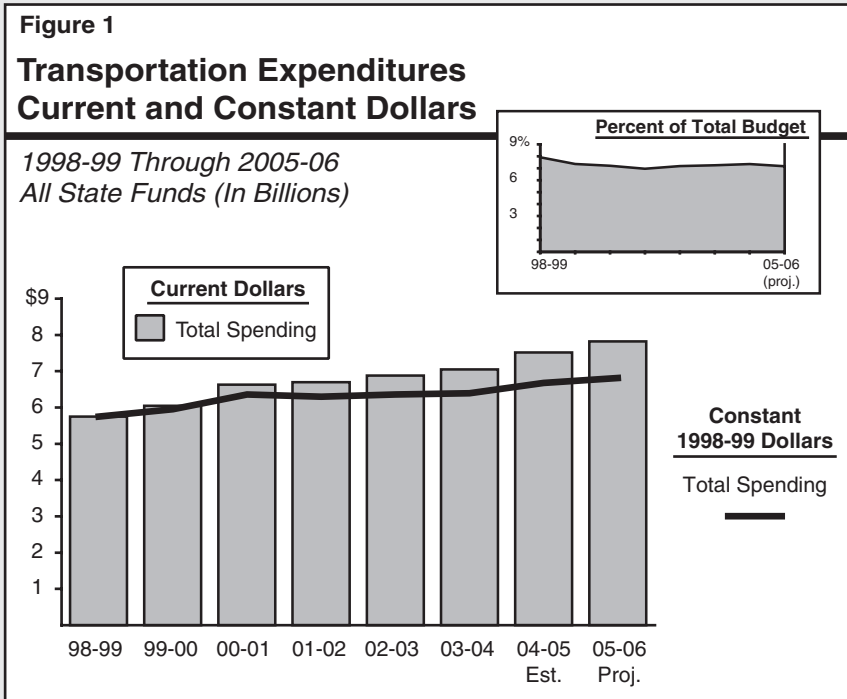
The increase, however, masks the real impact of the budget proposal to again use transportation funds to aid the General Fund in 2005-06. Specifically, the budget proposes to suspend the transfer of about \$1.3 billion in gasoline sales tax revenue to transportation programs, required by Proposition 42. The budget year would be the third year in which Proposition 42 is suspended in whole or in part. The administration proposes to repay the suspended amount over a 15-year period. In addition, as in the current year, the budget proposes to suspend in 2005-06 the transfer of "spillover" sales tax revenue from the General Fund to the Public Transportation Account (PTA) for various rail and transit programs. The budget projects that this would save the General Fund \$216 million in 2005-06.

Absent the above proposals to suspend transfers of funds to transportation, an additional \$1.5 billion would be available for transportation in 2005-06. This additional funding would allow a significantly higher level of capital outlay expenditures in transportation than that proposed in the budget.

**Historical Trends.** Figure 1 shows total state-funded transportation expenditures from 1998-99 through 2005-06 (after adjustments for the errors noted above). As the figure shows, over the period, these expenditures are projected to increase by \$2.1 billion, or 36 percent. This represents an average annual increase of 4.5 percent. Figure 1 also displays the spending for transportation programs adjusted for inflation (constant dollars). On this basis, expenditures are estimated to increase by 19 percent from 1998-99 through 2005-06 at an average annual rate of 2.5 percent.

As Figure 1 shows, state-funded transportation expenditures increased each year from 1998-99 through 2004-05. The increase is projected to continue in 2005-06. This expenditure trend is driven by a combination of factors. First, state-funded expenditures by Caltrans, which represent about 52 percent of all state-funded transportation expenditures, are projected to increase by 37 percent over the period. From 1998-99 through 2000-01, the increase was mainly in both support and capital outlay for highway improvements, including seismic retrofit of state highways and bridges. Also, in 2000-01, under the Traffic Congestion Relief Program (TCRP), the state allocated \$400 million from the General Fund for streets and road improvements. Since 2000-01, state transportation funding has been diverted each year to help the General Fund. As a result, state-funded expenditures on transportation remained relatively flat through 2003-04. Expenditures are expected to be higher in 2004-05 as a result of partial repayment of certain loans made to the General Fund allowing some TCRP projects to proceed. The budget projects that the availability of bond funds backed by tribal gaming revenues would allow TCRP expenditures to continue in 2005-06.





A second program driving expenditure growth is the CHP. Specifically, the CHP’s expenditures grew by about 68 percent from 1998-99 through 2004-05, or at an average annual rate of 8.3 percent. The growth is driven mainly by increases in the cost of employee (primarily uniformed staff) salaries and benefits. Additionally, after September 11, 2001, the department increased its staff and overtime expenditures in order to enhance its statewide security activities. The budget proposes a 4.3 percent increase in CHP expenditures in 2005-06 over the 2004-05 level.

Compared to CHP and Caltrans, growth in state-funded expenditures for the Department of Motor Vehicles (DMV) has been modest. From 1998-99 through 2004-05, expenditures grew by 17 percent. The growth was mainly to accommodate higher employee compensation costs and to implement various statutes. The budget proposes a 2 percent increase in 2005-06 over the current-year level.

As a share of total state expenditures, Figure 1 also shows that transportation expenditures have declined since 1998-99, when they made up about 7.9 percent of all state expenditures. In 2004-05, transportation expenditures are estimated to account for 7.3 percent of all state-funded expenditures and remain at 7.2 percent for 2005-06.

## SPENDING BY MAJOR PROGRAM

Figure 2 shows spending for the major transportation programs and departments from all fund sources, including state, federal, and bond funds, as well as reimbursements.

**Figure 2**

### Transportation Budget Summary Selected Funding Sources

2003-04 Through 2005-06  
(Dollars in Millions)

	Actual 2003-04	Estimated 2004-05	Proposed 2005-06	Change From 2004-05	
				Amount	Percent
<b>Department of Transportation<sup>a</sup></b>					
State funds	\$4,126.6	\$4,403.3	\$4,402.3	-\$1.0	—
Federal funds	2,278.0	2,921.9	2,402.6	-519.3	-17.8%
Bond funds	122.9	32.9	26.4	-6.5	-19.8
Other	817.4	998.2	896.0	-102.2	-10.2
<b>Totals</b>	<b>\$7,344.9</b>	<b>\$8,356.3</b>	<b>\$7,727.3</b>	<b>-\$629.0</b>	<b>-7.5%</b>
<b>California Highway Patrol</b>					
Motor Vehicle Account	\$1,123.7	\$1,233.4	\$1,284.8	\$51.4	4.2%
State Highway Account	44.9	49.2	52.6	3.4	6.9
Other	91.0	96.5	85.9	-10.6	-11.0
<b>Totals</b>	<b>\$1,259.6</b>	<b>\$1,379.1</b>	<b>\$1,423.3</b>	<b>\$44.2</b>	<b>3.2%</b>
<b>Department of Motor Vehicles</b>					
Motor Vehicle Account	\$382.4	\$414.3	\$409.8	-\$4.5	-1.1%
Vehicle License Fee Account	274.0	284.7	292.9	8.2	2.9
State Highway Account	40.1	38.7	39.2	0.5	1.3
Other	18.7	17.3	20.4	3.1	17.9
<b>Totals</b>	<b>\$715.2</b>	<b>\$755.0</b>	<b>\$762.3</b>	<b>\$7.3</b>	<b>1.0%</b>
<b>State Transit Assistance</b>					
Public Transportation Account	\$104.6	\$117.4	\$137.3	\$19.9	17.0%

<sup>a</sup> Figures have been adjusted to correct errors in the 2005-06 Governor's Budget.

**Caltrans.** The Governor's budget shows proposed total expenditures of \$8 billion in 2005-06—a reduction of \$119 million, or 1.5 percent, below estimated current-year expenditures. However, as noted earlier, the Governor's budget erroneously shows certain expenditures from the Traffic Congestion Relief Fund to be occurring in 2005-06 rather than in 2004-05. Correcting for the errors, the department's expenditures for 2005-06 are proposed at \$7.7 billion, \$629 million (or 7.5 percent) lower than the estimated current-year level of expenditures, as shown in Figure 2. These expenditures would be funded mainly from the State Highway Account and federal funds.

**CHP and DMV.** Spending for the CHP is proposed at \$1.4 billion—\$44 million, or 3.2 percent, higher than the estimated current-year level. About 90 percent of all CHP expenditures would come from the Motor Vehicle Account (MVA). The increase in expenditures is mainly due to higher employee compensation and retirement costs and various price increases.

For DMV, the budget proposes expenditures of \$762 million—\$7 million, or 1 percent, more than the current year. These expenditures would be funded primarily from the MVA and the Motor Vehicle License Fee Account. The increase in expenditures is due primarily to various price increases and mandated costs for local law enforcement agencies to implement the administrative driver license suspension program.

**Transit Assistance.** Annual funding for the STA program is determined based on a statutory formula, and the level varies depending on anticipated revenues in the PTA. For 2005-06, the budget proposes to fund the program at \$137 million, which is \$20 million, or 17 percent, higher than the current-year level. This level, however, is lower than that called for under existing law. This is because the budget proposes to suspend the transfer of \$216 million in "spillover" sales tax revenue into the PTA and retain the amount in the General Fund instead. Under current law, the STA would receive half of the spillover amount. As a result, the proposed STA funding level is \$108 million lower than it would be otherwise if the transfer is made.

## MAJOR BUDGET CHANGES

Figure 3 (see next page) highlights the major changes proposed for 2005-06 in various transportation programs.

**Figure 3****Transportation Program  
Proposed Major Changes for 2005-06**

<b>Department of Transportation<sup>a</sup></b>	<b>Requested:</b> \$7.7 billion
	<b>Decrease:</b> \$629 million (-7.5%)

- + \$263 million in rail capital outlay
  - + \$45.8 million for pavement maintenance and culvert inspection
  - + \$26 million for fuel and insurance cost increase
  - + \$11.7 million for stormwater treatment best management practices
- 
- \$785 million in highway local assistance

<b>California Highway Patrol</b>	<b>Requested:</b> \$1.4 billion
	<b>Increase:</b> \$44.2 million (+3.2%)

- + \$65.1 million for cost of uniformed positions, per memorandum of understanding

<b>Department of Motor Vehicles</b>	<b>Requested:</b> \$762.3 million
	<b>Increase:</b> \$7.3 million (+1.0%)

- + \$1.5 million for mandated cost of administrative driver license suspension program
- + \$1.5 million for *Woosley* litigation cost reimbursements

<sup>a</sup> Figures have been adjusted to correct errors in the Governor's budget.

*Caltrans.* The budget shows a reduction of \$785 million in local assistance for highway improvement in 2005-06 from the current-year level. This large reduction is due to abnormally high estimated current-year expenditures for local assistance. Because of the lack of a federal transportation reauthorization act in 2003-04, Caltrans had to carry over \$680 million in federal local assistance expenditure authority from 2003-04 to the current year. The budget estimates that the carry-over amount would be expended in the current year along with the amount anticipated to be authorized in the current year. However, federal reauthorization may continue to be delayed, preventing the expenditure of these funds in the current year. This would shift some current-year expenditures shown in the

budget to the budget year, reducing or even erasing the apparent drop in local assistance expenditures.

The budget also shows expenditures for intercity rail capital improvements to be \$263 million higher in 2005-06 than the current year. This increase is overstated due to the way Caltrans accounts for expenditures for certain state funds in the budget display. (Please see our writeup on this issue in Item 2660, Department of Transportation.)

**CHP and DMV.** The budget proposes expenditures for CHP and DMV that would maintain current-year service and program levels. For CHP, the budget proposes \$65 million to cover the higher cost of uniformed personnel, as called for by the current memorandum of understanding. For DMV, the budget requests \$1.5 million to reimburse local law enforcement agencies for the mandated cost of implementing the administrative driver license suspension program. The budget also requests \$1.5 million to fund the costs of processing refund claims and litigation in the *Woosley* case, a class-action lawsuit brought by certain vehicle owners that were overcharged by the department for their vehicle license fees.



# CROSSCUTTING ISSUES

*Transportation*

## TRANSPORTATION FUNDING INSTABILITY CONTINUES

*This year, we address transportation funding issues in The 2005-06 Budget: Perspectives and Issues. We note that the Governor's budget includes a number of proposals that will affect transportation funding in the budget year and future years. We also recommend that the administration provide information by April 1 to the Legislature that would allow it to determine (1) the effect of the Governor's proposals on the size of the transportation program and (2) funding needs for the Traffic Congestion Relief Program in 2005-06. Please see the Perspectives and Issues for a full discussion. What follows here is a brief summary of our analysis and conclusions.*

*Budget Proposes Continued Transportation Aid to General Fund.* The 2005-06 budget includes a number of proposals that will affect transportation funding not only in the budget year, but also in future years. First, the budget proposes to use transportation funds to provide \$1.5 billion in aid to the General Fund in 2005-06. Second, the budget anticipates tribal gaming bonds will repay some transportation loans in the budget year instead of the current year. Third, the administration proposes to increase the stability of transportation funding in the long run by prohibiting the suspension of Proposition 42 transfers to transportation beginning 2007-08. However, it also proposes to delay certain loan repayments to transportation by repaying the loans over 15 years, instead of as currently scheduled for repayment in the next few years.

***State Transportation Funding Is Already Limited and Uncertain.*** State transportation funding has been limited in recent years due to several factors. These factors include repeated suspension of Proposition 42 and a decline in the value of the excise tax on gasoline and diesel fuel. These and other factors have reduced the state's allocations of funding for new projects by billions of dollars. As a result, some transportation needs are now being met through borrowing, which reduces funding available for other transportation projects both now and in the future. In addition, some actions taken in the 2004-05 budget have increased uncertainty for transportation funding in the near term. These actions include an attempt to transfer rental and sale income from transportation to the General Fund and an assumption that tribal gaming bonds would generate \$1.2 billion for transportation in the current year.

***Governor's Proposals Raise Further Transportation Issues.*** The administration's 2005-06 proposals to use transportation funding to aid the General Fund will further constrain near-term funding for transportation programs and increase program uncertainties in the short term. The Traffic Congestion Relief Program (TCRP) will be particularly affected, and it is uncertain whether there will be sufficient funding in the budget year to continue work on TCRP projects. We recommend that the administration provide information by April 1 to the Legislature that would allow it to determine (1) the effect of the Governor's proposals on the size of the transportation program and (2) TCRP project funding needs in 2005-06.

Over the long run, the proposal to prohibit the suspension of Proposition 42 transfers to transportation would provide added stability at the expense of the General Fund. However, another component of the administration's proposal to reform the state budget, namely the across-the-board reduction provision, could lessen that stability and increase the volatility of Proposition 42 funding. We have previously recommended a means of stabilizing transportation funding without affecting the General Fund. Specifically, our recommendation is to repeal Proposition 42, replace it with an increase in the gas tax, and adjust the gas tax for inflation. These actions would provide about the same amount of money to transportation as Proposition 42 while freeing up General Fund revenues for nontransportation purposes.

***See Perspectives and Issues for Detail.*** For a complete discussion of transportation funding issues related to the Governor's budget, please see "Part V" of *The 2005-06 Budget: Perspectives and Issues*.

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# 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 total expenditures of \$8 billion by Caltrans in 2005-06. This is about \$100 million, or 1.5 percent, less than estimated current-year expenditures. However, the budget includes a number of errors that the administration recognizes and plans to correct in April 2005. Adjusting for the errors, the budget proposes expenditures of \$7.7 billion by Caltrans in 2005-06—\$629 million (or 7.5 percent) less than the current-year level.

Even with the above adjustment, the budget display does not provide an accurate picture of total expenditures by the department in any one year. This is because Caltrans' budget does not use a consistent accounting methodology to account for expenditures from different funding sources. We discuss this issue in detail in the following section.

## MISLEADING BUDGET NUMBERS WEAKEN LEGISLATIVE OVERSIGHT

*The Governor's budget displays transportation funds in multiple and changing ways, making it impossible to determine Caltrans' total expenditures in a given year and complicating comparisons from one year to the next. Legislative oversight is severely hampered by these inconsistent displays, which also create additional work for Caltrans' staff. We recommend the enactment of legislation requiring transportation expenditures to be displayed according to standard budgetary display requirements.*

### **Budget Numbers Are Inconsistent Across Funds and Over Time**

*Caltrans Funds Are Displayed Differently Than Other Funds.* Most funds in the Governor's budget, including federal funds and the General Fund, are displayed on a modified accrual basis, as required by state law. This means that the budget generally shows "expenditures" from funds at the time the state *commits* to making a payment, not when the payment is actually *made*. State law, however, provides an exemption for four Caltrans funds, listed in Figure 1. Statute allows the Department of Finance (DOF) to establish whatever accounting and reporting system it desires for these four state funds, which represent roughly half of Caltrans' budget.

The DOF has chosen to display the capital outlay and local assistance expenditures for each of these funds on a cash basis, while continuing to show state operations expenditures on a modified accrual basis. By contrast, all expenditures from other transportation funds, including federal funds, continue to be shown on a modified accrual basis. This means that the budget shows certain Caltrans expenditures when payments are made, and others when the state commits to making the payments. For most state programs, this distinction would make little difference from an oversight perspective, as the commitment to pay funds and the payment of those funds usually happen within the same year. Caltrans' capital outlay and local assistance expenditures, however, are on transportation projects for which Caltrans commits to spending money up front, but for which money may be paid out over multiple years. Thus, displaying part of Caltrans' budget on a cash basis and part on a modified accrual basis makes it impossible to determine Caltrans' total expenditures in a given year. As we discuss below, this practice prevents the Legislature and the public from holding the department accountable for managing taxpayer funds, tracking program changes over time, determining the level of support expenditures required to deliver scheduled transportation projects, and comparing Caltrans' expenditures to those of other programs.

**Figure 1****Caltrans Funds Exempted From Standard Accounting**

Fund or Account	Exempting Statute
State Highway Account	Streets and Highways Code 183
Toll Bridge Seismic Retrofit Account	Streets and Highways Code 188.10
Traffic Congestion Relief Fund	Government Code 14556.5
Public Transportation Account	Public Utilities Code 99310.6

*State and Federal Expenditures Cannot Be Aggregated.* One effect of the different accounting basis used for these four state funds is that adding together the state and federal funds that make up Caltrans' budget yields only a rough approximation of the budget's size. For example, the 2005-06 Governor's Budget shows total budget-year expenditures for Caltrans of \$8 billion, including \$2.4 billion from federal funds, \$2.9 billion from the State Highway Account (SHA), and \$2.7 billion from other funds. However, if SHA expenditures were accounted for on a modified accrual basis as federal funds are, SHA expenditures would total \$3.4 billion (instead of \$2.9 billion). Likewise, the \$2.7 billion expended from other funds would change significantly if they were all shown on the same basis as the federal fund expenditures. Thus, even if the budget contained no errors, it would still be incorrect to state, as the Governor's budget does, that Caltrans' expenditures for 2005-06 are projected to be \$8 billion.

Figure 2 (see next page) illustrates this problem using a single hypothetical transportation project as an example. This hypothetical project has capital outlay costs of \$100 million and will take three years to construct. The project is funded by \$80 million in federal funds and \$20 million in state funds. As the figure shows, on an accrual basis, the entire \$100 million project would appear in Caltrans' budget the year the contract to construct the project is awarded. Thus, the budget would reflect Caltrans' funding commitment to complete the project. On a cash basis, part of the project would appear in each year that Caltrans paid some money to the contractor. In this case, the budget would reflect Caltrans' actual cash expenditures. However, the way DOF would currently show this project would be to count all the federal funds as expenditures in the first year, while the state funds would be shown as expended over the life of the project. Thus, for any given year, the Legislature is unable to ascer-

tain the magnitude of the department's project commitments or payments from the information displayed in the budget. The information presented is both incorrect and misleading and prevents the Legislature from holding the department accountable for managing taxpayer funds.

<b>Figure 2</b>			
<b>Hypothetical Budget Display for One Project</b>			
<i>(In Millions)</i>			
<b>Accrual Basis—Shows When Project Is Awarded</b>			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Federal	\$80	—	—
State	20	—	—
<b>Totals</b>	<b>\$100</b>	<b>—</b>	<b>—</b>
<b>Cash Basis—Shows When Funds Are Expended</b>			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Federal	\$16	\$40	\$24
State	4	10	6
<b>Totals</b>	<b>\$20</b>	<b>\$50</b>	<b>\$30</b>
<b>DOF Accounting: Half Accrual, Half Cash—Misleading Information</b>			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Federal	\$80	—	—
State	4	\$10	\$6
<b>Totals</b>	<b>\$84</b>	<b>\$10</b>	<b>\$6</b>

*Budget Display Choices Change From Year to Year, Distorting Program Trends.* In addition to the differences in accounting between state and federal funds, the accounting basis for each of the four funds over which DOF has budget display control changes over time. This makes it impossible not only to aggregate Caltrans' expenditures correctly *within* each year to get a complete picture of the department's activities, but also to compare expenditures *between* years. Relying on data in the budget to examine expenditure trends over time would result in erroneous and misleading conclusions about program activity. For example, the Governor's budget shows Public Transportation Account (PTA) capital outlay expenditures increasing by 700 percent between 2004-05 and 2005-06, from \$39 million to \$313 million. The large increase in expenditures is based on a large projected increase in PTA revenues due to a one-time transfer of \$275 million into PTA from the sale of tribal gaming bonds. (Please see our discussion of

Caltrans' funding issues in *The 2005-06 Budget: Perspectives and Issues* for more information on tribal gaming bond revenue.) The budget shows Caltrans expending the entire \$275 million in the budget year. However, Caltrans indicates that only a small fraction of that money would actually be paid out in the budget year. In fact, Caltrans currently has only \$148 million worth of transit capital outlay projects planned through the end of 2008-09. By contrast, the \$39 million in capital outlay expenditures shown in the current year is actually Caltrans' estimate of the cash they will spend this year. Thus, if the administration in fact intends to show the PTA on a cash basis, capital outlay expenditures for the budget year are grossly inflated.

## Current Practice Hinders Oversight and Efficiency

*Misleading Numbers Weaken Legislative Oversight by Reducing Budget Usefulness.* Using multiple accounting methods to display Caltrans' budget weakens legislative oversight in several ways. Neither the Legislature nor the public is currently able to:

- Accurately determine the size of Caltrans' annual budget or compare it to other state expenditures.
- Hold Caltrans accountable for managing taxpayer funds.
- Track changes or trends in Caltrans' project expenditures over time.
- Use the budget to verify Caltrans' annual project delivery claims.
- Compare the budget to the California Transportation Commission's biennial project delivery plan.
- Determine the amount of federal and state funds paid out for transportation projects in any year.

The failure of the administration's budget to provide any of this information severely diminishes the usefulness of Caltrans' budget display to the Legislature and the public.

*Caltrans Keeps Two Sets of Books, Reducing Efficiency.* The federal Single Audit Act and state law require the state to annually report the financial condition of all of its funds on a modified accrual basis. Because of this requirement, Caltrans' accounting division continually keeps track of all of Caltrans' expenditures on a modified accrual basis. In order for DOF to show transportation expenditures on a cash basis in the Governor's budget, Caltrans' budget division must convert the expenditures recorded in its accounting system to a cash basis. When asked how much effort could be saved by converting the budget to a modified accrual basis, Caltrans staff responded that they could not quantify the savings, but did acknowledge that such a change would be a "simplification" of the budget process.

Thus, while the savings of making such a switch are unknown, using the normal budgetary accounting method (modified accrual) would certainly reduce the level of effort required by Caltrans' budget division in preparing the annual budget.

### **Accrual Accounting Would Still Allow Effective Cash Management**

*Concern Over Cash Management.* The DOF indicated that the purpose of showing the four transportation fund accounts on a cash basis is to facilitate Caltrans' management of the cash available in each of the accounts. The administration's concern is that using a modified accrual method would result in negative account balances because Caltrans makes project commitments in excess of the cash it has available in any given year. In order to display a positive fund balance, Caltrans would have to keep large reserves in the accounts instead of using the money more efficiently to fund additional projects.

*Cash Management Can Occur Without Cash Accounting.* We concur that Caltrans should use state funds efficiently to maximize the amount of transportation construction these funds can support at any one time. However, to do so, we do not think it is necessary to display the accounts on a cash basis in the budget. In fact, the negative balances (under the modified accrual method) would provide useful information on the amount the state has committed to pay in future years for which it does not currently have cash available. We think that one way to address the administration's concern is to specifically identify the amount of expenditures in the fund condition statement that are not due to be paid until future years. This would allow DOF to show actual (positive) cash balances available in the accounts in addition to the (potentially negative) accrual balances. This adjustment in the budget display would not hinder Caltrans' project delivery. In our view, it would increase Caltrans' efficiency as well as enhance budget accountability.

### **Recommend Making Caltrans' Numbers Comparable to Rest of Budget**

Showing all of Caltrans' funds on the same accounting basis as the rest of the budget would allow the Legislature and the public to accurately determine the size of Caltrans' budget, track changes over time, and compare Caltrans' expenditures to those of other programs. This would greatly enhance legislative oversight and provide the Legislature with a firmer basis on which to make Caltrans budget decisions. Therefore, we recommend that the Legislature delete DOF's statutory authority to show Caltrans' funds on a different basis than the rest of the state budget, thereby making Caltrans' expenditure information comparable to the rest of the budget.

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## HIGHWAY TRANSPORTATION

### Capital Outlay Support Request Will Be Revised

*We withhold recommendation on \$1.45 billion requested for capital outlay support staff because staffing needs will be revised during the May Revision when more accurate information on workload for the State Transportation Improvement Program will be available.*

**Withhold Recommendation on Capital Outlay Support.** The budget proposes \$1.45 billion to fund capital outlay support, a 2.5 percent increase from current-year estimated expenditures. However, the department typically provides new estimates in the spring as part of the May Revision. By that time, the department will have more accurate estimates regarding the amount of project development work that will be performed during 2005-06. Pending receipt of new workload estimates, we withhold recommendation on the department's capital outlay support request.

### Storm Water Maintenance Request Needs Revision

*The budget proposes to increase funding for storm water treatment by \$11.7 million in the budget year (\$8.8 million ongoing) and 43.2 personnel-years (PYs), in order to perform ongoing maintenance for storm water treatment structures. This request is based on a new legal settlement requiring the department to expand its use of storm water treatment structures on the state highway system. However, the request is based on a poor estimate of the number of such structures Caltrans will have in the budget year. We recommend rejecting the request but allowing Caltrans to resubmit it based on corrected information. (Reduce Item 2660-007-0042, Schedule 4, by \$9,611,000 and 43.2 PYs. Reduce Item 2660-502-0608 by \$2,052,000.)*

**Budget Proposes Expanding Storm Water Treatment Activities.** The 2004-05 Budget Act provided a total of 180 PYs in Caltrans' maintenance division to perform storm water management activities. These activities are required under the federal Clean Water Act and a Storm Water Management Plan (SWMP) negotiated between Caltrans and the State Water Resources Control Board. Caltrans' SWMP was developed in response to a lawsuit filed against it by environmental groups in Los Angeles in 1993. In April 2004, Caltrans reached a new settlement agreement with those environmental groups, requiring Caltrans to incorporate pollution control structures into the highway system statewide. In order to perform the ongoing maintenance that will be required for those structures, Caltrans is requesting an additional \$11.7 million in the budget year for 43 PYs and the purchase of related equipment. Permanent funding after the budget year would

be \$8.8 million to cover the costs of the PYs and the ongoing maintenance of their equipment.

***Budget Request Based on Poor Estimate.*** While the department's required storm water treatment structure maintenance will certainly increase because of this settlement agreement, its requested funding increase is based on a poor estimate of the number of structures it will have to maintain in the budget year and beyond. Specifically, the department's request assumes that it will have 487 such structures to maintain statewide by the end of the budget year. This assumption was based on a survey of four of Caltrans' 12 districts in the summer of 2004. However, the districts chosen for the sample were not representative of the state as a whole, and it was unclear how many of the 487 structures were already built. We asked the department to provide us with an estimate based on a more thorough review of its installed treatment structures. In response, Caltrans indicated (in January 2005) that a survey of seven districts revealed 881 storm water treatment structures currently in existence in those districts alone, with 109 more planned for completion by the end of the budget year. Caltrans did not estimate how many such structures it must have statewide based on this new information, but it may be more than double the number estimated in the budget request.

Caltrans has thus provided the Legislature with two very different estimates of the amount of additional storm water maintenance work it will have to perform. If the latter estimate is indeed correct, maintaining the treatment structures statewide could require about twice the resources Caltrans has requested.

***Recommend Rejecting Request but Allowing Caltrans to Resubmit.*** While Caltrans will certainly require resources to maintain its storm water treatment structures, the Legislature has no basis to determine the amount of resources to provide. Therefore, we recommend rejection of the department's request. Instead, we recommend that Caltrans recalculate the number of storm water treatment structures it has statewide and resubmit its request for funding in April 2005 based on corrected numbers.

## **Significant Raise for Caltrans Engineers Not Shown in Budget**

*The collective bargaining unit to which Caltrans' engineers belong has negotiated substantial pay raises for its members over the next four years. Under current law, the administration is required to present the results of a salary survey to the Legislature each year before it considers approving the increase. The budget does not reflect the first year of this increase, as the administration is waiting for an updated survey.*



***Caltrans Engineers to Achieve Pay Parity With Their Counterparts, Subject to Legislative Approval.*** Caltrans' engineers belong to the Professional Engineers in California Government (PECG), otherwise known as collective bargaining Unit 9. The PECG's current negotiated memorandum of understanding (MOU) with the state indicates that PECG's members are to receive a raise in each year from 2005-06 through 2008-09. These raises are to be based on annual surveys of the pay received by engineers at large local agencies around the state, so that by the end of the four-year period PECG's members are to achieve pay parity with their local counterparts. However, while the Legislature has approved PECG's MOU, the annual pay increase is not automatic. Instead, according to current law, the results of the salary survey must be submitted to the Legislature annually before the Legislature will consider approving the corresponding pay increase.

***Pay Increase Not Shown in Governor's Budget.*** An initial survey conducted by the Department of Personnel Administration estimated that under the provisions of the MOU, PECG members would receive a 4.8 percent pay increase in 2005-06, a more than 8 percent increase in each of the next two years, and a 5 percent increase in 2008-09. By the end of the four-year period, the state's annual salary expenditures for PECG members would increase by about \$300 million annually over current levels. Most, but not all, of this amount would be for Caltrans engineers and would be funded by transportation funding sources, primarily the SHA. However, the Governor's budget does not reflect the first year of this pay increase, estimated at \$48 million. This is because DOF is awaiting the results of an updated survey of local agencies before budgeting the corresponding pay increase in the budget year. It is our understanding that once this survey is complete, the administration will request the calculated pay increase in April or May 2005. The pay increase would then require legislative approval in the budget bill to go into effect.



## CALIFORNIA HIGHWAY PATROL (2720)

The California Highway Patrol's (CHP) core mission is to ensure safety and enforce traffic laws on state highways and county roads in unincorporated areas. The department also promotes traffic safety by inspecting commercial vehicles, as well as inspecting and certifying school buses, ambulances, and other specialized vehicles. The CHP carries out a variety of other mandated tasks related to law enforcement, including investigating vehicular theft and providing backup to local law enforcement in criminal matters. In addition, the department provides protective services and security for state employees and property. Since September 11, 2001, CHP has played a major role in the state's enhanced antiterror activities.

The CHP's overall level of staffing is about 10,300. The department is comprised of uniformed (sworn) and nonuniformed (nonsworn) personnel, with uniformed personnel accounting for approximately 7,200 positions, or 70 percent of total staff. Roughly two-thirds (4,700) of CHP's overall uniformed personnel are assigned to patrol duties on roadways throughout the state. The CHP's remaining uniformed personnel (2,500) perform various nonpatrol functions for the department.

The budget proposes \$1.4 billion in support for CHP in 2005-06, about \$44 million (3 percent) above estimated current-year expenditures. This increase is primarily to fund costs of the current memorandum of understanding with officers.

Most of CHP's budget is funded from the Motor Vehicle Account (MVA), which derives its revenues primarily from vehicle registration and driver license fees. For 2005-06, MVA funds would make up 90 percent of CHP support costs.

## WORKERS' COMPENSATION AND INDUSTRIAL DISABILITY RETIREMENT

### CHP Identifies Plan to Reduce Workers' Compensation And Industrial Disability Retirement

*The California Highway Patrol's workers' compensation costs have been rising, and they account for an increasing proportion of the department's annual payroll. The rate of uniformed staff retiring on industrial disabilities is higher than statewide public safety personnel as a group in the Public Employees' Retirement System. The department has identified various measures to contain workers' compensation costs and reduce fraud in industrial disability retirements.*

**CHP Pays for Workers' Compensation Costs.** Workers' compensation laws require employers to pay for the cost of treating job-related injuries sustained by employees. The CHP pays all the costs associated with treating injuries sustained by its employees while performing their job duties. The department's workers' compensation costs are made up of several components, including:

- Medical payments for employees to treat their injuries.
- Full salary payments, up to one year, for uniformed personnel injured on the job (referred to as "4800.5 time," as it is provided under Labor Code Section 4800.5). During this period, injured officers are placed on a leave of absence from the department.
- Temporary disability payments if the injury continues for more than one year.
- Permanent disability payments that provide a monetary award to compensate employees for sustaining a permanent injury that diminishes their ability to compete in the labor market.
- Vocational rehabilitation payments that provide injured employees with rehabilitation treatment or courses that will enable them to find another job.
- Administrative costs for a third party administrator, the State Compensation Insurance Fund (SCIF), to process, adjust, and manage all claims.

In 2003-04, CHP spent \$68 million on workers' compensation costs. Medical costs accounted for the largest portion of this expenditure, about 44 percent (\$30 million) of the department's total workers' compensation outlay. Payments for temporary and permanent disability and vocational

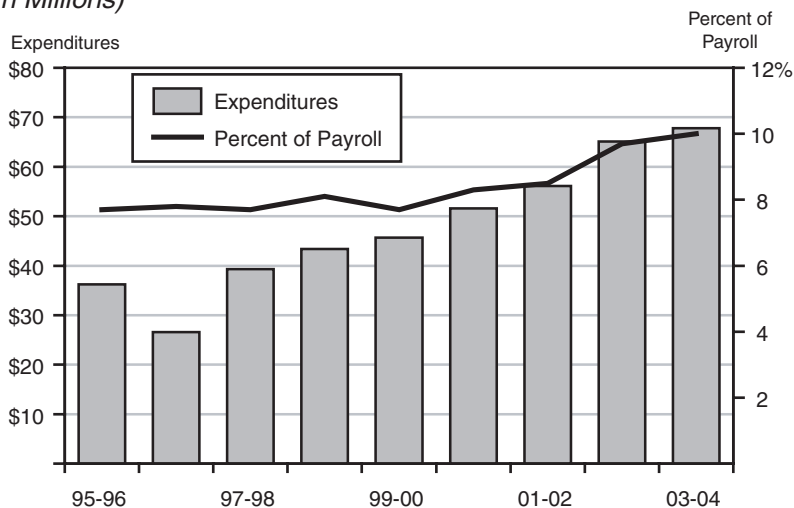
rehabilitation accounted for another 28 percent (\$19 million) of total costs, followed by 4800.5 time benefits and administrative costs.

***Injured Uniformed Staff Eligible for Industrial Disability Retirement.*** Uniformed personnel who can no longer perform the duties of their job due to work-related injuries are eligible for an industrial disability retirement (IDR). Typically, IDR is preceded by an employee having received workers' compensation benefits. Similar to other retirement costs, IDRs are paid from the Public Employees' Retirement Fund, which is supported by employer and employee contributions. Unlike regular service retirements, IDR retirees do not pay state or federal income taxes on half of their annual pension amount.

***Workers' Compensation Costs Increasing; IDR Incidence for Uniformed Staff High.*** Recent stories in the press have highlighted CHP's relatively high workers' compensation costs and incidence of IDRs by uniformed personnel and identified multiple instances of alleged fraud and abuse. Our review of CHP data shows that the department's workers' compensation costs have been rising significantly. As Figure 1 shows, these costs grew from \$36 million in 1995-96 to \$68 million in 2003-04, an increase of 89 percent. Moreover, workers' compensation costs as a percent of the department's annual payroll has increased. In 1995-96, workers' compensation costs accounted for about 7.7 percent of CHP's payroll. In 2003-04, it made up almost 10 percent of the department's payroll—the highest rate in state government. For 2005-06, the budget requests \$65 million to fund workers' compensation costs for CHP.

The department also has a high incidence of uniformed staff retiring on industrial disability. In recent years, roughly two-thirds of uniformed employees who retire each year receive an IDR, with chiefs accounting for the highest IDR rate in the department (about 80 percent). The CHP's average annual percentage of IDRs is higher than the Public Employees' Retirement System (PERS) public safety group as a whole. Specifically, 67 percent of CHP's uniformed retirees have taken an IDR as compared with 49 percent of local police and firefighters and 37 percent of state peace officers and firefighters over the same period.

***Department Conducts Review.*** In response to the news stories, the department conducted a study of workers' compensation and IDR, which included an audit of every IDR taken by uniformed staff between January 2000 and June 2004 as well as a sample of workers' compensation claims. In November 2004, the department released a report entitled *Workers' Compensation and Disability Retirement within the CHP*. Among the major findings were the following:

**Figure 1****California Highway Patrol Workers' Compensation Expenditures***(In Millions)*

- The percentage of total uniformed employee retirements that are IDRs has fluctuated considerably, particularly since the mid-1990s—from 47 percent in 1996 to 82 percent in 2002.
- Of 982 retirements by CHP uniformed staff since 2000, over 60 percent of rank-and-file officers and about 80 percent of chiefs received an IDR.
- Of the 603 IDRs awarded to uniformed staff since 2000, CHP identified 15 that merit further investigation by the department on the grounds of possible abuse or fraud. These cases could result in the filing of criminal charges. The department has referred another 20 questionable cases to PERS for further investigation.
- Workers' compensation costs decreased from 1992-93 to 1995-96, which may be due in large part to the establishment of a full-time CHP workers' compensation fraud unit in the early 1990s (subsequently disbanded by the late 1990s). Costs have grown every year since 1998-99, however, from \$43 million in 1998-99 to \$68 million in 2003-04, or an increase of about 58 percent.
- The department's record-keeping systems for workers' compensation cases are inadequate, as are CHP's claims review and docu-

mentation processes. Five of the 100 workers' compensation claims audited for the report (chosen randomly from among the 234 workers' compensation claims that were filed in August 2003) lacked proper documentation by supervisors so that CHP was unable to verify the injury claim.

*Department Outlines Plan of Action.* Based on these findings, the report enumerated a number of measures to reduce workers' compensation and IDR abuse and fraud, as well as overall costs associated with these benefits. Figure 2 summarizes CHP's "action plan."

<p><b>Figure 2</b></p> <p><b>California Highway Patrol (CHP)</b></p> <p><b>Key Actions to Address Workers' Compensation And Industrial Disability Retirement (IDR) Problems</b></p>
<p><b>Key Steps Taken or in Progress</b></p> <ul style="list-style-type: none"> <li>• Form an 11-officer internal fraud unit (all uniformed personnel) to review injury claims and improve CHP's antifraud processes.</li> <li>• Audit State Compensation Insurance Fund (SCIF) to ensure proper billing of the department.</li> <li>• Provide additional training to supervisors on the proper procedures for handling injury claims.</li> <li>• Evaluate the pros and cons of advocating changes to current law regarding IDRs.</li> </ul>
<p><b>Major Changes Under Review for Possible Implementation</b></p> <ul style="list-style-type: none"> <li>• Establish in-house legal counsel to provide technical expertise on matters such as workers' compensation and retirement.</li> <li>• Modify CHP's workers' compensation and IDR databases to more accurately track and review cases.</li> <li>• Contract out with a private company to administer workers' compensation claims, rather than with SCIF, or administer claims in-house.</li> <li>• Conduct departmentwide training and awareness programs that promote workplace safety and honesty in filing workers' compensation claims.</li> <li>• Assign uniformed staff on 4800.5 time (and in the process of filing for an IDR) to limited duty status, and transition uniformed personnel classified as "permanently injured" to vacant nonuniformed positions.</li> </ul>

The department indicates that it will absorb costs related to those corrective actions requiring additional staff and funds (such as the antifraud unit and modifications to the workers' compensation/IDR databases) rather than request a budget augmentation. Our review finds that such redirections of resources are reasonable and will not have a significant adverse effect on service levels.

## **Scope of the Problem Should Be Further Investigated**

*We think that the California Highway Patrol's report and subsequent actions are reasonable first steps in addressing issues related to workers' compensation and industrial disability retirement (IDR). However, our review identified some areas of concern that warrant further investigation by the department. We recommend that the Legislature adopt supplemental report language directing the department to examine the reasons for the disparity in IDR rates between chiefs and lower-ranking uniformed personnel.*

*Report Does Not Adequately Explain Particularly High IDR Rate Among Chiefs.* Within CHP, the incidence of injury claims and IDR is high particularly among senior-ranking uniformed personnel (assistant chiefs and above). In fact, the frequency with which CHP executives claim injuries toward the end of their career and retire with an IDR is known in the department as "chief's disease."

The CHP report confirms that chiefs do receive IDRs at a higher rate than other uniformed personnel. For example, the report finds that since 2000, just over 80 percent of assistant chiefs and three-fourths of deputy chiefs retired with an IDR, as opposed to about 60 percent of rank-and-file officers. The report suggests, though, that this difference can be explained by the fact that, on average, chiefs are several years older and have longer careers than their subordinates, thereby increasing the likelihood of suffering a disability. Specifically, the report points out that deputy chiefs receiving an IDR between 2000 and 2004 were more than six years older and had about nine more years of service than officers retiring with an IDR.

Our review of CHP's data, however, shows that differences in age and years of service do not adequately explain the IDR rate disparity between chiefs and other, lower ranks of the CHP. For example, since 2000, 81 percent of retiring assistant chiefs received an IDR, compared with about 56 percent of lower-ranking lieutenants. Yet, the average age at retirement for chiefs and lieutenants receiving an IDR is almost exactly the same—about 56 years old. The average years of service before taking an IDR is similar, as well, with both chiefs and lieutenants serving an average of over 30 years at the time of retirement.

Given this information, we believe that further investigation is warranted to better identify the reasons for the difference in IDR rates between chiefs and lower-ranking uniformed personnel. Understanding the reasons would enable CHP to better devise actions that could effectively reduce the high incidence of IDR in high-ranking executives of the department. Accordingly, we recommend that the Legislature adopt the following supplemental report language directing the department to examine this issue further.

The California Highway Patrol shall (1) investigate the reasons for the difference in industrial disability retirement (IDR) rates between high-ranking uniformed personnel (including chiefs, deputy and assistant chiefs) and lower-ranking personnel, and (2) report its findings to the Joint Legislative Budget Committee and the policy and fiscal committees of the Legislature by December 1, 2005. The investigation shall not be limited to age and length of service of the two groups of personnel, but shall also include other factors such as physical fitness and the nature of workers' compensation claims leading to IDR. The report shall identify corrective actions, as appropriate, targeted to reducing the high incidence of IDR among high-ranking personnel.

***Extent of Fraud Within CHP Is Lower Than Previously Reported.*** As noted earlier, CHP's audit of all 603 IDRs granted since 2000 identified 35 cases (5.8 percent) as potentially fraudulent. The report indicated that 15 of these cases warrant further investigation by CHP, which could lead to criminal prosecution. Due to certain legal and privacy issues, the report explained that CHP had to forward the remaining 20 cases to PERS for investigation.

Since the report's release, however, CHP has indicated to our office that the number of possibly fraudulent cases is considerably less than 35. This is because most of the 35 cases are *duplicates*, meaning that the 15 names under investigation by CHP are largely the same as the 20 names referred to PERS. In addition, of the 15 cases identified as requiring further review, five have already been found by CHP investigators to contain no evidence of fraud. The department expects to complete its review of the remaining ten cases by May 1, 2005. At the conclusion of this review, CHP indicates that cases will either be closed on the grounds of insufficient evidence of fraud or, if enough evidence of fraud exists, investigated further by the department, a process that could take up to an additional 18 months.

The CHP's recent clarification about the number of possibly fraudulent IDR cases identified in its audit raises a question regarding the extent to which workers' compensation and IDR fraud is a significant problem within the department. Even assuming, for example, that all ten remaining cases under review by CHP are eventually found to be fraudulent, the inci-



dence of criminal activity by retired uniformed personnel since 2000 will have totaled under 2 percent of all IDR cases.

Given this apparent low incidence of fraud, we think that it is important for CHP not only to focus on fraud reduction and prevention, but also to target its actions to reduce overall workers' compensation claims and IDR rates.

### **Set Performance Goals to Measure Effectiveness of Actions**

*We recommend the Legislature adopt supplemental report language directing the California Highway Patrol to establish and report on its goals and performance measures in order to assess the effectiveness of its actions to reduce costs and claims associated with workers' compensation claims and industrial disability retirement.*

In addition to taking steps to address the workers' compensation and IDR issues, as identified in CHP's action plan, we think it is important for CHP to also establish specific performance goals and measures so that it can better assess the effectiveness of its efforts. For example, besides setting goals for workers' compensation costs in each budget year, CHP might establish annual targets for reducing the number of workers' compensation and IDR claims filed by employees. The department might also set targets for increasing the percentage of all claims that are handled by supervisors in compliance with internal policies and procedures. These pre-established performance targets can later be compared with actual outcomes—as well as results from prior years—to measure CHP's level of improvement and overall success at containing costs. In addition, by requiring the department to report regularly on its efforts and results, the Legislature would be in a better position to hold the department accountable for its performance.

To help set reasonable goals and measures, CHP should examine the performance and policies of other public safety agencies throughout the state and country (such as other highway patrol departments). Such an examination could provide CHP with some "benchmarks" as well as identify "best practices" in addressing workers' compensation and IDR issues.

Accordingly, we recommend that the Legislature adopt supplemental report language directing CHP to establish goals and performance measures to gauge the effectiveness of actions to reduce workers' compensation claims and the incidence of IDR, as follows.

The California Highway Patrol shall report by December 1, 2005 on the goals and performance measures it will use to assess the success of its efforts to reduce workers' compensation and industrial disability retirement claims and costs. In establishing these goals and performance

measures, the department shall examine the performance and policies of other public safety agencies in California and other states. Findings of this examination shall be included in the December report.

## STATE CAN IMPROVE ROAD PATROL SERVICES THROUGH EFFICIENCIES

*In our January 2005 report California Highway Patrol: Enhancing Road Patrol Service Through Efficiencies, we find that workload increases for the California Highway Patrol have outpaced growth in road patrol (traffic) officers and have limited the department's ability to conduct proactive patrols. We recommend a number of actions to enhance the department's patrol services, including (1) steps to reduce officer paperwork, (2) pilot testing the use of nonsworn staff for nonenforcement road patrol duties, and (3) redirecting certain uniformed staff to road patrol duties.*

*“Vicious Circle” Not Likely to Abate Without Action.* Since 1993, the number of road patrol officers increased by 12 percent (500 officers), but the number of accidents grew by 30 percent (52,000 accidents). The significant workload increases in the road patrol program have created a vicious circle for CHP. In particular, the upsurge in the number of traffic accidents in CHP's jurisdiction has resulted in road patrol (traffic) officers spending increasing amounts of their work hours responding to accidents rather than conducting proactive patrols and providing enforcement and other safety-related services to the motoring public. Absent corrective actions, it is unlikely that CHP's ability to promote traffic safety will improve.

### Operational Changes to Address Increasing Workload

Our review finds that there are a number of measures which could be adopted to improve the efficiency of CHP in order to enhance proactive patrol. These include: (1) reducing workload by modifying the department's accident-reporting policy; (2) streamlining the department's record-keeping processes; (3) pilot testing the use of nonuniformed staff for certain road patrol duties; and (4) backfilling vacant nonpatrol officer positions with nonuniformed personnel. Most of our recommendations provide the Legislature the opportunity to increase road patrol service within existing levels of funding for the department.

*Recommend Modifying Accident-Reporting Policy for Noninjury Accidents.* Current departmental policy requires road patrol officers to complete a written report on every traffic accident to which they respond, including property-damage-only accidents. In 2003, road patrol officers spent a combined 325,000 hours—the equivalent of 185 personnel-years (full-

time officer positions)—writing reports on 150,000 property-damage-only accidents. Yet, state law does not require CHP or any other law enforcement agency to take reports on property-damage-only accidents. In fact, many local law enforcement agencies, including the Cities of Los Angeles and Sacramento, usually instruct parties to a property-damage-only accident to exchange pertinent information, notify the Department of Motor Vehicles (DMV), and contact their insurance companies for further investigation and resolution of the matter. By contrast, the only circumstance in which CHP officers are *not* required to take a property-damage-only accident report is if the parties voluntarily insist on exchanging information.

We recommend the enactment of legislation that directs CHP to modify its accident-reporting policy in a way that reduces officers' workload without compromising public safety. For example, a new policy might allow officers that respond to a property-damage-only accident to offer the parties assistance with exchanging information—rather than the current default policy of taking a formal collision report. In so doing, the equivalent of up to 185 personnel-years could be freed up for proactive patrol.

***Streamline Time and Record-Keeping Processes for Road Patrol Officers.*** The CHP's time and record-keeping procedures require road patrol officers to spend too much of their time completing paperwork. By improving the system of recording, tallying, and reporting officers' attendance and activities, CHP could reduce the amount of time officers spend on administrative matters, thereby increasing patrol time. In fact, we estimate that a 20 percent reduction in time spent annually on paperwork would amount to the equivalent of adding about 100 road patrol officers.

Accordingly, we recommend the enactment of legislation directing CHP to streamline various record-keeping procedures, including implementing the following:

- Eliminate the requirement that road patrol officers record activities on a paper-based shift log. Most of these activities are already recorded on the dispatcher's computer log.
- Develop an automated system of record keeping so that officers' daily tallies of such workload as citations issued and arrests made are added up and recorded directly into the departmental databases.
- Have officers complete their timesheet on departmental computers rather than recording them by hand.
- Acquire software that allows officers to record demographic information of public contacts directly onto their computers rather than by hand on a supplemental form.

- Reduce the time it takes for accident and arrest reporting by allowing officers to dictate their reports over the phone or into a microcassette recorder, rather than writing them.

The procurement of software for record-keeping purposes would involve one-time costs to CHP, which likely would be offset by a reduction in costs to key-enter data from the shift logs. While transcription services for officer reports would involve ongoing administrative costs, it would free up officer time for more road patrol service.

***Recommend Pilot Project on Using Nonsworn Staff for Nonenforcement Road Patrol Duties.*** Under current law, all CHP uniformed road patrol officers are sworn law enforcement personnel, meaning that they possess “police powers” of, among other things, search, seizure and arrest. Road patrol officers must have these powers to issue traffic citations to motorists, search a suspicious vehicle for illegal contraband, and arrest motorists for offenses such as driving under the influence of alcohol or drugs. However, our review finds that road patrol officers spend over 700,000 hours annually (the equivalent of over 400 personnel-years) on service-related activities such as directing traffic and removing debris from the roadways—duties other law enforcement agencies throughout the state and country assign nonsworn “community service officers” or “safety services patrollers” to perform.

In order to evaluate the workability of using nonsworn staff for nonenforcement road patrol duties at CHP, we recommend the enactment of legislation that directs the department to pilot test safety services patrollers in select areas for a period of time, such as two years, and to report to the Legislature on the pros and cons of implementing the project statewide.

If the pilot is successful, phased-in implementation of the program statewide would produce a net increase in the number of CHP staff (uniformed and nonuniformed) patrolling state roadways for about the same cost. This is because the average cost for a CHP officer is about one-fourth higher than that of a nonuniformed CHP position. Thus, for example, cost savings from hiring 400 safety service patrollers to replace the equivalent in vacant road patrol officer positions could be used to hire 100 additional officers—thereby increasing total personnel coverage in CHP’s jurisdiction.

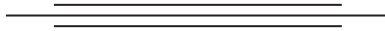
***Backfill Certain Vacant Nonpatrol Officer Positions With Nonuniformed Staff.*** Our review also finds that CHP assigns a number of officers to various nonpatrol functions which could be performed more cost effectively by nonuniformed staff. To make more efficient use of CHP resources, we recommend that the Legislature enact legislation directing the department to study the feasibility of backfilling certain vacated officer positions with nonuniformed personnel. Cost savings generated from this

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action could be used to hire additional road patrol officers where justified by workload. For example, for every 100 vacant officer positions that are filled with nonuniformed staff, the department could free up enough funds to hire an additional 25 road patrol officers. Nonuniformed staff could be assigned for activities such as:

- Checking the records of motorists operating on roadways with out-of-state license plates to determine if they should be registered with DMV.
- Coordinating each area offices' computer network.
- Attending community outreach events and providing information to the media and public on CHP's activities and safety programs.
- Weighing and inspecting commercial vehicles for registration and safety compliance.
- Certifying school bus drivers.
- Administering the department's rotation tow truck program, and conducting annual inspections of tow trucks, ambulances, and armored cars.
- Monitoring freeway traffic conditions.

(Please see our January 2005 report, entitled *California Highway Patrol: Enhancing Road Patrol Service Through Efficiencies.*)



## DEPARTMENT OF MOTOR VEHICLES (2740)

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in vehicle ownership by registering vehicles, and promoting public safety on California's streets 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 fees and tax revenues for state and local agencies. The DMV operates 167 customer-service field offices statewide, as well as nine telephone service centers, a headquarters, and a number of driver safety and investigations offices.

The budget proposes total expenditures of \$762 million for support of DMV in 2005-06. This represents an increase of \$7 million, or 1 percent, above estimated current-year expenditures. About \$410 million (54 percent) of the department's total support will come from the Motor Vehicle Account and \$293 million (38 percent) from the Motor Vehicle License Fee Account. The remaining support will be funded primarily from the State Highway Account and reimbursements.

### **Evaluations of High-Risk Drivers Face Increasing Delays**

*Investigations and evaluations of potentially high-risk drivers by the Department of Motor Vehicles' (DMV) driver safety branch will be increasingly delayed absent corrective actions, thereby compromising public safety. To reduce the delay, we recommend the adoption of budget bill language directing the department to transfer the workload for evaluating certain high-risk drivers to its field offices and to report on the impact of the transfer.*

State law requires motorists to hold a valid driver license in order to drive on public streets and highways. The DMV is responsible for issuing driver licenses to qualified applicants, as well as renewing expired licenses. The DMV also has the authority to suspend, restrict, or revoke the driver

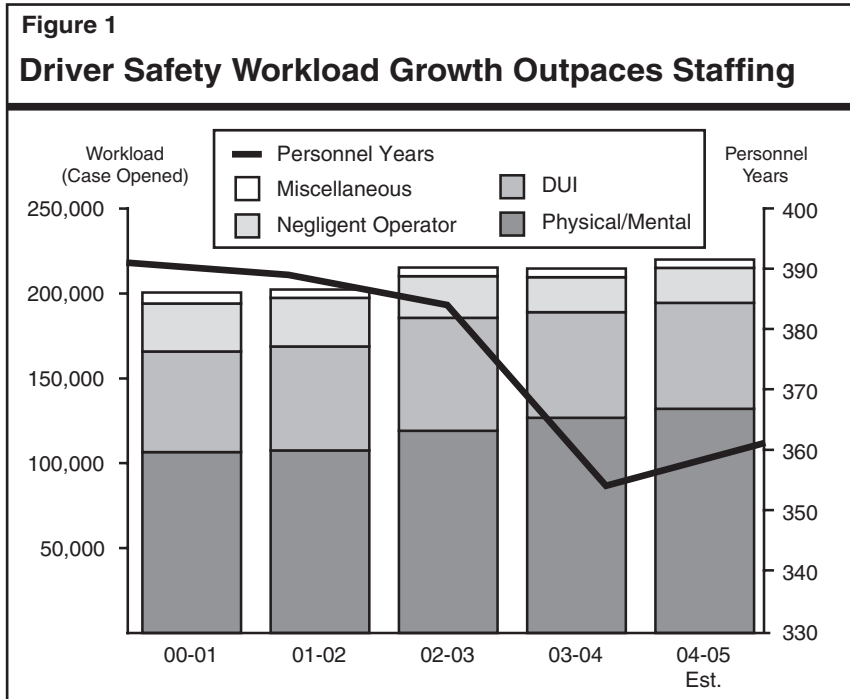
license of unsafe (“high-risk”) motorists. These include motorists who are arrested for driving under the influence of alcohol (DUI) or have accrued a large number of moving violations (negligent operators). The largest group of high-risk drivers is comprised of drivers who may no longer be physically or mentally able to safely operate a motor vehicle, such as motorists with vision problems or diseases such as Alzheimer’s.

The department’s driver safety branch assesses the competence of these motorists to continue driving. The DMV operates 12 driver safety offices statewide. (These offices are separate from DMV’s 167 customer-service field offices, which issue original and renewal driver licenses to qualified drivers, in addition to registering vehicles, transferring vehicle ownership, and providing numerous other services.) Driver safety staff assess potentially high-risk drivers to determine if, in the interest of public safety, adverse action should be taken against their driving privilege.

***Staffing Declines While Workload Increases.*** Our review shows that staffing at driver safety offices has declined by about 8 percent in recent years as a result of cutbacks from hiring freezes and position abolishments. As Figure 1 (see next page) shows, after peaking at about 390 personnel-years (PYs) in 2000-01 and 2001-02, staffing has dropped to 361 PYs in the current year. Most of the reduction is pursuant to Control Section 4.10, which authorized the administration to achieve budget savings in 2003-04 by abolishing positions throughout state government and reducing state operation expenditures.

While the staffing level has declined, the driver safety branch’s workload has increased. As Figure 1 also shows, between 2000-01 and 2003-04 the total number of cases opened by driver safety offices increased by over 14,000 (7 percent), to 215,000. While the amount of negligent operator cases has decreased and DUI totals are relatively unchanged, overall workload has grown due to increases in cases involving motorists who may be physically or mentally unfit to drive safely (P&M). In fact, between 2000-01 and 2003-04, P&M workload increased by 20,000 cases (19 percent), from 107,000 to 127,000. Totals for the current year are expected to be even higher. Overall, P&M cases account for 60 percent of driver safety’s workload, while DUI cases make up almost 30 percent. Negligent operator cases account for about 10 percent of total workload.

This combination of staffing cutbacks and workload growth has contributed to a reduction in DMV’s ability to provide timely investigations and evaluations of potentially unsafe drivers, particularly those arrested for DUI violations or suspected of having debilitating physical or mental conditions.



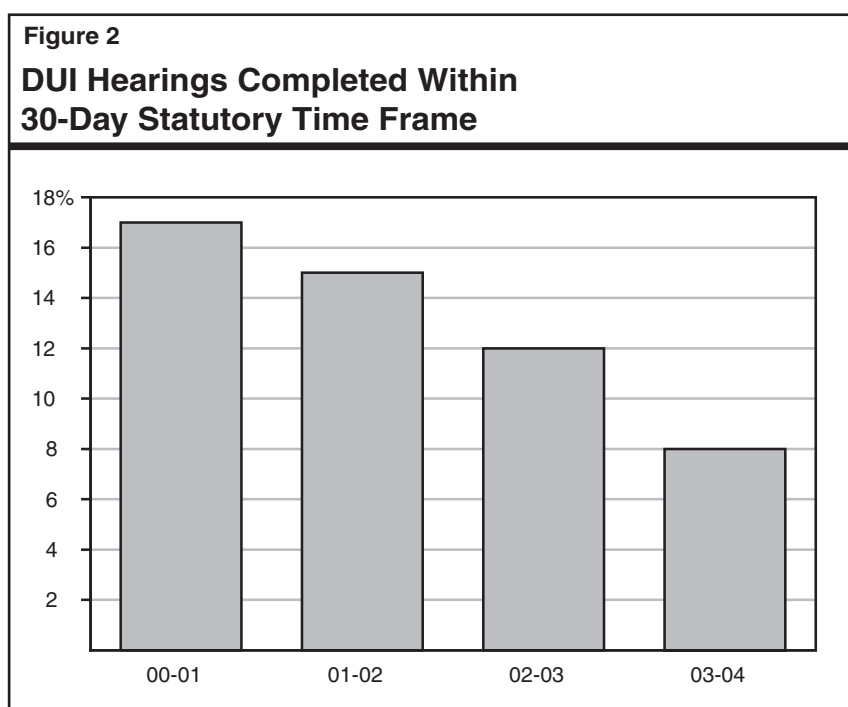
**Statutory Deadline for DUI Hearings Not Being Met; Reduces Effectiveness of the Law.** Current law provides for the automatic suspension or revocation of a driver license if either (1) a chemical test indicates the presence of illegal levels of alcohol in a driver's blood, breath, or urine; or (2) the driver refuses to take such a test when so ordered by a law enforcement officer. In such cases, the officer issues the driver a notice of suspension or revocation and a temporary driver license, which is valid for 30 days. The officer then reports the arrest to DMV. (This is referred to as the Administrative License Suspension program.) After reviewing evidence related to the arrest, driver safety staff determines whether the suspension or revocation order should be sustained. This process, which is independent of the often lengthy criminal court trial pertaining to the arrest, protects the public interest by expediting the revocation of driving privileges of unsafe drivers.

If a driver wishes to contest the suspension or revocation order, statute requires DMV to hold an administrative hearing before the order becomes effective (that is, within 30 days of the arrest). If DMV is unable to hold the hearing within the 30-day time frame, the driver is permitted to drive until one can be scheduled. This protects due process by ensuring that drivers have an opportunity to challenge improper suspensions. At the hearing, the driver (or representative such as an attorney) has a right to challenge



and present evidence and witnesses in order to contest the suspension or revocation order. The driver safety branch ultimately reinstates licenses in approximately one-fourth of these hearings.

The DMV's ability to meet the statutory deadline for administrative hearings has continued to decline in the past few years. As Figure 2 shows, in 2003-04, only 8 percent of hearings were held within 30 days of arrest. This is down from 17 percent in 2000-01. The average length of time before a hearing could be held in 2003-04 was 53 days, compared to 46 days in 2000-01. Such delays undercut the purpose of the law, which is to protect public safety by facilitating the timely removal of dangerous drivers from the roadways, and reduce the law's effectiveness.



*Department Uses Efficiencies and Overtime to Reduce Delays in DUI Hearings.* In response to staffing cuts in 2003-04, the driver safety offices implemented several administrative efficiencies to reduce workload and delays, including eliminating the need for staff to write detailed reports when reinstating driving privileges and corresponding with drivers more by telephone rather than by mail. In addition, DMV recently began requiring most driver safety office staff to work overtime in order to reduce delays. According to data provided by the department, in December 2004,

250 staff worked a combined 4,300 hours of overtime (an average of about 17 hours per employee). As a result of these efficiency and overtime measures, the average wait time in that month to schedule a DUI hearing has been reduced to 39 days.

The DMV plans to authorize overtime for staff through the remainder of the current year by redirecting funds from various operating expense and equipment allotments. The department has not made a decision regarding the use of overtime in the budget year, but has not requested any additional funding or staffing for the program. However, without continued use of overtime or additional staff, DMV estimates that the average time frame for hearings will increase to over 60 days in 2005-06—twice the statutory requirement.

***Mixed Performance for Reexaminations of Motorists Who May Not Be Physically or Mentally Able to Drive Safely.*** As noted earlier, the majority of driver safety offices' workload involve P&M cases. The driver safety branch receives written referrals from peace officers, medical professionals, family members, and other individuals requesting that DMV reevaluate a driver's physical or mental ability to safely operate a motor vehicle. In most cases, the referred driver must schedule an appointment with driver safety staff for a reexamination. The reexamination process usually consists of a review of the motorist's driving and medical history by a hearing officer, as well as an evaluation of the driver's performance on a supplemental vision, written, and drive test. Based on the results of the reexamination, the driver safety officer makes a decision as to whether a motorist's driving privilege should be restricted, rescinded, or left intact.

The driver safety branch conducts two types of reexaminations: regular and priority. *Priority reexaminations*, which account for about 5 percent of reexaminations, are conducted at the request of law enforcement personnel who believe that a motorist's mental or physical condition may be impairing his or her ability to drive safely. Under current law, a law enforcement officer issues the driver a priority reexamination notice, which requires the driver to contact a driver safety office within five days. A hearing officer must meet with the driver by the following business day after contact for an initial interview and evaluation. The DMV automatically suspends the license of motorists that fail to contact a driver safety office within the five-day deadline.

The DMV indicates that, unlike the situation with DUI cases, the driver safety branch is currently in compliance with the statutorily required time limit for priority reexaminations. This is because DMV considers those drivers who are referred for priority reexaminations to be the greatest potential risk to the public, and thus requires staff to redirect resources and efforts to handle incoming cases in a timely fashion.

*Regular reexaminations* can be triggered by referrals from persons such as the driver's doctor, family, or neighbors. Medical professionals must report patients' lapses of consciousness to driver safety staff, as well as persons who are recently diagnosed with diseases such as Alzheimer's or other forms of dementia. Others such as friends or family of a motorist may contact a local driver safety office when they observe the motorist driving in an unsafe manner.

In contrast to priority reexaminations, there is no statutory time limit on DMV to hold regular reexaminations. Instead, referred drivers are scheduled for a reexamination as appointment slots become available, which may take over a month. During this scheduling period, motorists are permitted to drive. The average number of days before driver safety staff can schedule a regular reexamination increased every year between 2000-01 and 2003-04, from 35 days to 42 days. As a result of DMV's authorization of overtime for staff, driver safety offices were able to reduce the average reexamination time frame to 19 days in December 2004. The department indicates, however, that without continued use of overtime or additional staff in the budget year, this average will likely increase to over 50 days in length.

***DMV Should Transfer Negligent Operator Workload to Field Offices.*** As noted earlier, DUI and P&M cases account for about 90 percent of driver safety offices' workload. Negligent operator cases account for most of the remaining workload. Under current law, motorists that accrue an excessive number of moving violations or cause multiple traffic accidents within a certain period of time automatically receive written notification from DMV that their driving privileges will be suspended or revoked within 30 days. These drivers have a right to request a hearing with a driver safety office in order to contest the suspension before it goes into effect.

According to the department, negligent operator cases are the most straightforward cases handled by driver safety offices. Unlike DUI hearings, for example, negligent operator hearings usually do not involve attorneys or witness testimony. Moreover, while P&M reexaminations can require hearing officers to understand technical medical records in determining the fitness of motorists to drive, negligent operator cases typically consist of no more than a review of the motorist's driving record and a questionnaire concerning the motorist's driving habits. For these reasons, new hearing officers can be trained to handle negligent operator cases in just two weeks, as opposed to more than six weeks of training required for DUI and P&M cases.

Given these key differences between cases, our review suggests that the department can make a more efficient use of its resources by transferring responsibility for negligent operator cases to DMV's customer-service

field offices. In so doing, workload for the driver safety offices would be reduced by about 21,000 cases, or 10 percent of total workload, thereby freeing up driver safety staff to focus on more complex workload involving DUI hearings and P&M reexaminations. Mid-level staff at the customer-service field offices, such as first-line managers or senior motor vehicle technicians, could be trained and assigned to handle negligent operator cases. Since negligent operator workload would be assumed by up to 167 offices, the impact on field office staff would be spread across many locations—an average of 125 cases annually per field office.

Thus to make a more efficient use of departmental resources and to reduce the driver safety offices' workload, we recommend that the Legislature adopt budget bill language directing the department to transfer the responsibility for negligent operator cases to the customer-service field offices and to report as part of the 2006-07 budget on the workload impact of the transfer.

The following budget bill language is consistent with this recommendation.

The Department of Motor Vehicles shall transfer the workload associated with negligent operators from the driver safety offices to the customer-service field offices. As part of its 2006-07 budget submittal, the department shall provide information on the impact of the workload transfer on (1) customer-service field offices and driver safety offices, and (2) the delays in the evaluations of driving-under-the-influence cases and the reexamination of motorists who may be physically or mentally unfit to drive safely.

***DMV Should Continue Staff Overtime If Needed.*** Our review also finds that overtime for driver safety staff has been an effective and relatively cost-efficient way for DMV to reduce delays in scheduling DUI hearings and P&M reexaminations. We find that the average amount of overtime per employee (about 17 hours per month, or 4 hours per week) is limited enough that it does not unreasonably burden staff. Moreover, while the department pays one and one half times employees' regular salary for every hour of overtime worked, other costs such as for additional benefits and facilities are minimized.

Given DMV's success at reducing waiting times by the use of overtime, we think that the department should continue this practice in 2005-06, if needed. With the transfer of the negligent operator workload to customer-service field offices, more staff will be available in driver safety offices to handle DUI hearings and P&M reexaminations.

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## NEWLY IDENTIFIED MANDATE REVIEW

Chapter 1124, Statutes of 2002 (AB 3000, Budget Committee), requires the Legislative Analyst's Office to review each mandate included in the Commission on State Mandates' (CSM) annual report of newly identified mandates. In compliance with this requirement, this analysis reviews the mandate entitled "Administrative License Suspension Mandate."

### **Administrative License Suspension Mandate**

State law requires a law enforcement officer (state or local) to immediately confiscate the driver license of a person arrested for driving under the influence of alcohol. The officer issues the driver a notice of suspension or revocation and a temporary driver license, which is valid for 30 days. The officer is then required to submit the driver license, a copy of the notice of suspension or revocation, and a written report regarding the circumstances of the arrest to DMV. After reviewing evidence related to the arrest, DMV determines whether the order of suspension or revocation should be sustained.

In August 2002, CSM determined that these activities by local law enforcement agencies on behalf of DMV are a state-reimbursable mandate. In December 2004, CSM estimated the statewide cost of this mandate to be about \$10 million (for total costs incurred from 1997-98 through 2004-05). The estimate is based primarily on the salary and benefits costs of the employees performing activities on behalf of DMV's license suspension program, particularly the time for officers to complete and submit required documents.

The administration proposes to provide \$10 million in 2004-05 to fund the cost of this mandate through the current year, as well as \$1.5 million in the budget year.

### **Mandated Cost Reasonable**

*Based on our review of the activities and estimated costs of the program, we recommend that the Legislature reimburse local law enforcement agencies for the mandated costs of the administrative license suspension program.*

We believe that funding of the license suspension mandate as proposed by the administration is justified. The program protects the public interest by allowing DMV to suspend the license of motorists arrested for drunk driving, and the cost estimate seems reasonable. Accordingly, we

recommend that the Legislature fund this mandate. Funding would come from the Motor Vehicle Account.

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# FINDINGS AND RECOMMENDATIONS

## *Transportation*

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## Crosscutting Issues

### *Transportation Funding Instability Continues*

- A-15 ■ **Transportation Funding Instability Continues.** The Governor's budget includes a number of proposals that will affect transportation funding in the budget year and future years. Recommend that the administration provide information by April 1 to the Legislature that would allow it to determine (1) the effect of the Governor's proposals on the size of the transportation program and (2) funding needs for the Traffic Congestion Relief Program in 2005-06. Please see "Part V" of *The 2005-06 Budget: Perspectives and Issues* for a full discussion.

## Department of Transportation (Caltrans)

### *Misleading Budget Numbers Weaken Legislative Oversight*

- A-18 ■ **Misleading Budget Numbers Weaken Legislative Oversight.** The budget displays transportation funds in multiple and changing ways, hampering legislative oversight and creating additional work for Caltrans staff. Recommend enactment of legislation requiring transportation expenditures to be displayed according to standard budgetary display requirements.

### *Highway Transportation*

- A-23 ■ **Capital Outlay Support Request Will Be Revised.** Withhold recommendation on \$1.45 billion capital outlay support request pending revised estimates in May.
- A-23 ■ **Storm Water Maintenance Request Needs Revision. (Reduce Item 2660-007-0042, Schedule 4, by \$9,611,000 and 43.2 Personnel-Years. Reduce Item 2660-502-0608 by \$2,052,000.)** Caltrans' storm water maintenance request is based on a poor workload estimate that is contradicted by later information from the department. Recommend rejection of the request. Recommend the administration resubmit its request based on corrected estimates.
- A-24 ■ **Significant Raise for Caltrans Engineers Not Shown in Budget.** The collective bargaining unit to which Caltrans' engineers belong has

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negotiated substantial pay raises for its members over the next four years. However, the administration must present the results of a salary survey to the Legislature prior to legislative approval of the increase. The budget does not reflect the first year of this increase, as the administration is waiting for an updated survey.

## California Highway Patrol (CHP)

### **Workers' Compensation and Industrial Disability Retirement (IDR)**

- A-27 ■ **CHP Identifies Plan to Reduce Workers' Compensation and IDR.** The department's workers' compensation costs have been rising, and they account for an increasing proportion of the department's annual payroll. The rate of IDR among CHP uniformed staff is higher than statewide public safety personnel as a group in the Public Employees' Retirement System. The department has identified various measures to contain workers' compensation costs and reduce fraud in industrial disability retirements.
- A-31 ■ **Scope of the Problem Should Be Further Investigated.** Recommend the adoption of supplemental report language directing the department to examine the reasons for the disparity in IDR rates between chiefs and lower-ranking uniformed personnel.
- A-33 ■ **Set Performance Goals to Measure Effectiveness of Actions.** Recommend the adoption of supplemental report language directing the department to establish and report on goals and performance measures to assess the effectiveness of actions to reduce workers' compensation claims and the incidence of IDR.

### **Improving Road Patrol Services**

- A-34 ■ **State Can Improve Road Patrol Services Through Efficiencies.** In our January 2005 report *California Highway Patrol: Enhancing Road Patrol Service Through Efficiencies*, we find that the recent upsurge in the number of traffic accidents occurring in CHP's jurisdiction has limited the department's ability to conduct proactive patrols. We recommend a number of actions for the Legislature to improve the efficiency of the department in order to enhance road patrol service.

## Department of Motor Vehicles

- A-38 ■ **Evaluations of High-Risk Drivers Face Increasing Delays.** In order to reduce delay in the evaluation and reexamination of certain high-risk drivers, recommend the adoption of budget bill language directing the department to transfer the workload for evaluating certain high-risk drivers to its field offices and to report on the impact of the transfer.
- A-45 ■ **Mandated Cost Reasonable.** Recommend approval of \$1.5 million to reimburse local law enforcement agencies for mandated cost of implementing the administrative driver license suspension program.