

Supply Chain and Port Infrastructure Proposals

Summary

Governor Proposes \$1.4 Billion for Supply Chain and Port Infrastructure. The Governor proposes \$1.4 billion General Fund over four years for a package of four proposals related to supply chain issues and port infrastructure. Specifically, the package consists of: (1) \$1.2 billion for the California State Transportation Agency to fund port, freight, and goods movement infrastructure; (2) \$110 million for the California Workforce Development Board to establish a goods movement workforce training campus; (3) \$40 million for the Department of Motor Vehicles to increase capacity to issue commercial driver's licenses (CDLs); and (4) \$30 million for the Governor's Office of Business and Economic Development (GO-Biz) to fund operational and process improvements at the ports.

Port, Freight, and Goods Movement Infrastructure. We find that several aspects of the proposed goods movement infrastructure program are uncertain, including key details for how the funds would be allocated. In assessing the proposal, the Legislature will want to consider the role of the state, the proposal's primary goals, the need for short- or long-term strategies, the merits and trade-offs of using a new or existing program, the geographic distribution of the proposed funding, and the ways state funding can complement federal funding. The Legislature also will want to consider reporting requirements to help facilitate future oversight of the funded activities.

Goods Movement Workforce Campus. The extent to which a labor shortage exists at the ports is unclear. We find that the proposal is not fully funded and would represent a new role for the state in workforce training. The Legislature will want to consider several issues, such as the existing training capacity at ports, other potential causes of the workforce shortage, the state's role in funding and programmatic decisions, and how the outstanding project costs and ongoing operational costs would be funded.

CDL Capacity. While the proposed resources to increase capacity to issue CDLs seem reasonable to address concerns regarding increased wait times, the demand for CDLs in the coming months is unclear. Further, we find that the Motor Vehicle Account would be a more appropriate fund source and that ongoing reporting is warranted to determine whether additional funding is needed after the proposed funding ends.

Operational and Process Improvements at Ports. GO-Biz is still developing the details of this proposal. We find that the Legislature will want to request the administration provide details on how the grants would be implemented and a clear justification for state involvement. Should the Legislature determine that the proposed funding is appropriate, it will want to consider which agency is most suited to administer the grants.

BACKGROUND

Businesses Use Ports, Freight Rail, and Commercial Trucks to Move Goods. In order for businesses to produce and deliver goods and services to the consumer, goods must be transported from one place to another. Businesses often use ports, freight rail, and commercial trucks to move goods across international and state lines. For example, about 40 percent of U.S. imports and 25 percent of U.S. exports pass through the Ports of Los Angeles and Long Beach, which are both situated on San Pedro Bay.

Recent Increase in Goods Volume Has Resulted in Port Congestion. In recent months, ports have experienced higher than normal levels of congestion. This is in part due to greater consumer demand for goods, which has resulted in a record volume of cargo at many ports. For example, in 2021, the San Pedro Bay ports processed 14.3 percent more cargo than in 2018. As a result, there is a growing backlog of ships waiting to offload and pick up goods at ports.

Port Congestion Likely Contributing to Rising Consumer Prices. Across all goods and services purchased by U.S. consumers, prices have risen by 7 percent over the past year, a considerably faster rate than recent history. Rising consumer

prices primarily arise from a surge in the amount of goods consumers want to buy met with businesses struggling to produce and deliver those goods. One result of this dynamic is a dramatic increase in ocean freight costs, which businesses may pass on to consumers through higher prices. Port congestion appears to be a key driver of rising freight costs. Port congestion also may reduce the availability of some goods to retailers, which could increase the prices of some consumer goods.

Recent Federal and State Funding for Ports and Freight Rail. In response to these issues facing ports and the broader supply chain, both the state and federal government have recently provided funding for ports and freight rail. For example, the *2021-22 Budget Act* included (1) \$160 million in General Fund for zero-emission drayage trucks and infrastructure incentives, (2) \$280 million in General Fund for infrastructure projects at the Port of Oakland, and (3) \$250 million in federal funds to help ports offset initial impacts from COVID-19. In addition, the federal Infrastructure Investment and Jobs Act (IIJA) that was enacted in November 2021 includes \$17 billion for port infrastructure and \$5 billion for freight rail nationwide.

OVERVIEW OF GOVERNOR’S PROPOSALS

Proposes \$1.4 Billion for Supply Chain and Port Infrastructure. In total, the Governor proposes \$1.4 billion General Fund over four years

to fund a package of four proposals related to supply chain issues and port infrastructure, as shown in **Figure 1**.

Figure 1

Overview of the Governor’s Supply Chain and Port Infrastructure Package (In Millions)

Proposal	Department	2022-23	2023-24	2024-25	2025-26	Total
Port, freight, and goods movement infrastructure	CalSTA	\$600	\$600	—	—	\$1,200
Supply chain workforce campus	CWDB	30	40	\$40	—	110
Commercial driver’s license capacity	DMV	10	10	10	\$10	40
Operational and process improvements at ports	GO-Biz	30	—	—	—	30
Totals		\$670	\$650	\$50	\$10	\$1,380

CalSTA = California State Transportation Agency; CWDB = California Workforce Development Board; DMV = Department of Motor Vehicles; and GO-Biz = Governor’s Office of Business and Economic Development.

Specifically, the proposed package consists of (1) \$1.2 billion for the California State Transportation Agency (CalSTA) to fund port, freight, and goods movement infrastructure; (2) \$110 million for the California Workforce Development Board (CWDB) to establish a goods movement workforce training

campus; (3) \$40 million for the Department of Motor Vehicles (DMV) to increase capacity to issue commercial driver's licenses; and (4) \$30 million for the Governor's Office of Business and Economic Development (GO-Biz) to fund operational and process improvements at the ports.

OVERARCHING ISSUES FOR CONSIDERATION

In this section, we identify some overarching issues for the Legislature to consider as it assesses the Governor's supply chain and port infrastructure package.

Role of the State. Given the importance of ports, freight, and the goods movement system to the economy, it is reasonable for the state government to prioritize providing some funding for issues related to supply chain and ports infrastructure. However, there are several other entities involved and invested in these issues, including the federal government, local and regional entities, port authorities, and private businesses, such as freight railroads, marine terminal operators, and freight trucking companies. In assessing the Governor's proposals, the Legislature will want to consider the state's role in supporting these types of activities, and how the state could best complement, rather than duplicate, efforts by other entities, such as the federal government.

Short-Term vs. Long-Term Strategies.

The current supply chain disruptions are the result of both short-term issues, such as greater consumer demand, as well as long-term issues, such as the capacity and resilience of the goods movement system. As a result, the Governor proposes a combination of short- and long-term strategies in this package. For example, in the short term, one-time funding for additional commercial drive tests through overtime, as proposed by the Governor, would address the pandemic-related increased demand for these licenses needed for commercial trucking in the budget year. Conversely, funding port infrastructure could potentially expand capacity in the long term. The Legislature will want to consider whether this package funds the mix of short- and long-term strategies that it deems appropriate to address its priorities in addressing needs in the supply chain and statewide port infrastructure.

Available Fund Sources. For some of the proposals, there is significant federal funding potentially available for similar activities. For example, as mentioned above, IJA includes several billions nationwide for port infrastructure and freight rail. The Legislature will want to consider how the state can best leverage state funds to maximize federal funding, as well as how the state can target funding to fill any gaps in the federal funding that are legislative priorities. In addition, the Legislature will want to consider whether the General Fund, as proposed by the Governor, is the most appropriate fund source to support some of the proposals. In some cases, state special funds, or local, regional, and private funds, may be more appropriate sources of funding.

Lack of Key Details. Many of the proposals lack important details on cost justifications, workload estimates, and implementation. This partly reflects that some of the proposals include new initiatives that the administration is still in the process of developing. For example, several proposals would establish new programs that might require additional feedback from stakeholders to determine key details, such as program guidelines and allocation criteria. Before the Legislature takes any action on these proposals, it will be important to require the administration to provide additional information to ensure the requested funding will be implemented according to its priorities.

State Appropriations Limit (SAL)

Considerations. The California Constitution limits how the state can spend revenues that exceed a specific threshold. Appropriations for capital outlay are excluded from the limit. Some of the proposed spending meets the definition of capital outlay under the SAL—specifically, the funding for CalSTA and CWDB as it would primarily support infrastructure projects. As a result, the

Legislature has limited flexibility to reallocate some of the funding from this proposal to other purposes that would not be excluded. That is, the Legislature would generally need to repurpose the associated funding for other SAL-related purposes, such as tax reductions or an alternative excluded expenditure.

(In our recent report, *The 2022-23 Budget: Initial Comments on the State Appropriations Limit Proposal*, we cover SAL issues in more detail.)

In the remaining sections, for each of the Governor's four proposals, we describe the proposal, provide our assessment, and identify issues and recommendations for legislative consideration.

PORT, FREIGHT, AND GOODS MOVEMENT INFRASTRUCTURE

Governor's Proposal

Provides \$1.2 Billion for Goods Movement Infrastructure. The Governor's budget provides a total of \$1.2 billion over two years (\$600 million in 2022-23 and \$600 million in 2023-24) for a new goods movement infrastructure program to be administered by CalSTA. Funds would be allocated to specific projects through a competitive process. Projects eligible for funding include port-specific projects, intermodal railyard expansion and electrification, goods movement railway corridor capacity projects, grade separations, and zero-emission goods movement demonstration projects. According to CalSTA, projects that could potentially receive funding are included in the Emerging Projects Agreement between CalSTA and the U.S. Department of Transportation (which consists of transportation projects aimed at strengthening supply chain resilience) and the 2020 California Freight Mobility Plan's project list (which includes freight projects that will be construction-ready by 2025). Seventy percent of the proposed funding would be allocated to projects related to the Ports of Los Angeles and Long Beach, with the remaining 30 percent allocated to supporting ports and goods movement infrastructure in the rest of the state, including inland ports.

Assessment

Proposal Addresses Long-Term Capacity Issues. Many of the projects that this proposal would fund will take years to implement. This is in part because infrastructure projects are costly,

time-intensive, and often require multiple phases of work to complete. Therefore, port improvement projects are intended to address long-term capacity issues—expanding the ability of ports and related goods movement infrastructure to move a greater number of containers than currently. In addition, these port infrastructure projects could have other benefits, such as reductions in greenhouse gas (GHG) emissions through the electrification of port vehicles and equipment. While these goals may be worthwhile, it is important to recognize that such infrastructure projects will not address the more immediate issues with the current supply chain disruptions, such as delays in goods movement, stalled ships near ports, and insufficient space for containers at ports.

Proposal Lacks Key Details. This proposal would create a new program intended to fund projects that meet certain goals, such as reduce GHG emissions, promote transportation equity, and reduce freight-related injuries and deaths. However, the Governor's proposal lacks detail on how projects will be assessed and prioritized for funding. According to CalSTA, this is because additional stakeholder feedback is needed before determining funding guidelines. Such limited information on how the program will be implemented makes it difficult for the Legislature to assess whether the program is aligned with its priorities, or if additional legislative direction is warranted. For example, additional information on how this new program differs from existing programs that fund similar port, freight, and goods movement infrastructure would be helpful for the Legislature to determine

whether a new program is needed. In addition, the proposal has few accountability measures and no reporting requirements, which in turn will make future legislative oversight of the program's implementation and outcomes challenging.

Unclear Whether Geographic Allocations Reflect Needs. According to CalSTA, 70 percent of the funding is proposed to go towards projects related to the Ports of Los Angeles and Long Beach because the majority of the goods movement occurs in this region. However, it is unclear whether this split in funding is reflective of the infrastructure needs in ports, freight, and the goods movement system. For example, Los Angeles and Inland Empire projects (which include projects outside of the Ports of Los Angeles and Long Beach) constituted roughly one-third of estimated costs for projects included in the 2020 California Freight Mobility Plan, followed by the Bay Area (nearly one-third) and San Diego (about one-sixth).

Project Costs Range Widely. Costs for port, freight, and goods movement infrastructure vary significantly. For example, the 2020 California Freight Mobility Plan identified more than 300 freight projects that could be implemented in the next several years, and these project costs ranged from \$350,000 to \$6 billion, with the median cost at about \$50 million. The wide range of costs reflects how varied these projects can be, especially in regards to scale. Therefore, without a clearer understanding of which types of projects will be prioritized, it is difficult to assess how many projects can be implemented with the proposed level of funding.

Federal Funding Anticipated, but Allocations Unclear. As discussed above, IIJA includes several billions of dollars for port and freight rail infrastructure. However, the amount of funding California will be eligible for and ultimately receive currently is unclear. Further federal guidelines on allocation of funding is anticipated in the coming months. Without a clear understanding of how much funding the state is eligible for, and for what types of projects, it is difficult to ascertain how state funding can best complement federal funds and how state funds could be leveraged to maximize federal funds.

Funding Excluded From SAL. The Governor excludes the proposed spending from the SAL, as the funds would primarily support infrastructure projects. As a result, the Legislature has limited flexibility to reallocate funding from this proposal to other purposes. The Legislature would generally need to repurpose the associated funding for other SAL-related purposes, such as tax reductions or an alternative excluded expenditure.

Issues for Legislative Consideration

The Legislature may want to modify the Governor's proposal so that it best address its priorities. Some factors that merit legislative consideration include:

- **Role of the State.** This proposal would represent a significant one-time increase in state funding for port, freight, and goods movement infrastructure. As discussed above, the Legislature will want to consider what the state's role in supporting and maintaining these types of infrastructure should be, given the number of other entities involved, including the federal government, port authorities, and freight railroad companies.
- **Primary Goals.** In addition to increasing goods movement capacity, this proposal is intended to meet several other goals, including reducing GHG emissions, promoting transportation equity, and reducing freight-related injuries and deaths. The Legislature will want to consider whether these goals reflect its priorities and, given the limited implementation details the administration has provided, if any additional legislative guidance is needed to ensure funding will be allocated to best meet these goals.
- **Short-Term vs. Long-Term Strategies.** This proposal mainly addresses long-term capacity issues at ports. To address shorter-term issues related to port congestion, other types of activities might be more appropriate, such as the purchase of chassis to move more containers at ports or providing port-adjacent state lands for increased container storage. It will be important for the Legislature to consider whether state action is needed in the short or long term, and modify the Governor's proposal accordingly.

- **New vs. Existing Programs.** Funding is currently proposed to be allocated through a new program under CalSTA. However, other existing programs—like the Trade Corridor Enhancement Program, which is administered by California Transportation Commission and funds similar goods movement infrastructure projects—could be used to allocate the proposed funding. The Legislature will want to consider the merits and trade-offs of providing funding through a new or existing program. For example, providing funding through an existing program might lead to faster implementation, even if some existing guidelines will have to be modified. Alternatively, a new program might be needed if the intended goals and types of projects prioritized differ significantly with the existing program.
- **Geographic Equity.** As discussed earlier, much of the funding is dedicated to projects at the Ports of Los Angeles and Long Beach because the majority of goods movement occurs in this region. However, the Legislature also may want to consider needs of port infrastructure statewide, to ensure the needs of smaller, inland ports are met with the available funding. The Legislature can consider requesting CalSTA to provide additional rationale behind the proposed funding split—particularly, how it aligns with the infrastructure needs across regions.
- **Complementing Federal Funding.** The Legislature might want to defer action on this proposal until later in the spring to see if additional information on the anticipated federal funds is available. Then, any additional state funding could be better targeted to fill any funding gaps, provide any necessary state matching funds to maximize federal funds, and ensure funding is distributed across projects of different types at all ports statewide in a manner consistent with the Legislature’s priorities.
- **Reporting.** Given that funds will be allocated to a new program, the Legislature might want to consider requiring CalSTA to report by January 1, 2025 on (1) the number, types, location, and expected completion date of projects funded; (2) an updated list of identified needs in port, freight, and goods movement infrastructure with estimated project costs, entities involved, and region; as well as (3) the amount of federal funding the state has received and for which projects. Additional information on funding outcomes and ongoing need in goods movement infrastructure would help the Legislature determine whether any additional state funding for these activities is needed in the future.

GOODS MOVEMENT WORKFORCE TRAINING CAMPUS

Governor’s Proposal

Provides \$110 Million to Build New Training Campus in Southern California. The Governor’s budget provides \$110 million General Fund over three years for CWDB to build a new training campus at the Port of Los Angeles. The proposed funding would cover about two-thirds of total project costs as estimated currently. Other entities would provide the remainder of the funding. The Port of Los Angeles has already identified a 15-acre location to be used for the training campus. According to the administration, the training facility would build on existing training programs at the Port of Los Angeles. The existing program is a CWDB-funded partnership consisting of employers, the International Longshore and Warehouse Union, and the Los Angeles Port Authority.

Campus to Replicate Port Environment, Include Training on New Technology. Under this proposal, the new campus would replicate port working environments to provide a safer location for training new hires who may be unfamiliar with the port’s complex working environment. The administration notes that the campus would train new workers, consistent with the longstanding role of CWDB, but also would re-train existing workers on how to use emerging port technology (especially related to the adoption of low- or zero-emission cargo handling equipment). Further, the training campus would be available to host training for other related industries, such as freight movement.

Stated Aim of Campus Is to Address Workforce Shortage. The administration's stated aim of the campus is to attract new workers and train existing workers in order to avoid future workforce shortages at the ports.

Assessment

New Campus Not Likely to Address Short-Term Challenges... Planning and construction of the new campus likely would take several years. The new campus therefore is not a solution to the current supply chain disruptions at the ports that have impacted businesses and consumers.

...But Could Prove Helpful Over Long-Term. In theory, the new campus could help port workers adopt new practices and technologies more rapidly in the future. The campus also might help encourage more workers to enter the port workforce. These developments could prove helpful in the future because an adequate number of workers who have the needed skills is a key element of smooth operations at the ports.

Unclear if Workforce Shortage Exists or if Training Is Key Bottleneck. As noted earlier, the administration's stated aim of the campus is to address a future workforce and skills shortage. The proposal does not include additional information about the future skills and workforce shortage. Key information might include: (1) the types of ports jobs that have historically been difficult to fill; (2) the training background and experience needed for these jobs; (3) the types of ports jobs that likely will be needed in the future; and (4) the gap, if any, between the current workforce and the projected needs for future port operations. This key information would assist the Legislature in assessing the extent to which a labor shortage exists at the ports. Further, although insufficient training opportunities can lead to workforce shortages, many other dynamics also affect workforce supply and therefore could instead be causing the purported shortage. For example, in addition to training opportunities, working conditions, scheduling, and work pay/benefits also affect workers' decisions about whether to work at the ports. Additionally, some of the conditions may be out of the ports' immediate control. For example, the ports could struggle with a workforce shortage,

irrespective of whether a training campus is available, if the demand for similarly skilled workers increases in other nearby sectors.

Details About Funding Sources Remain Outstanding. The Governor proposes to provide \$110 million toward the \$150 million in total project costs but the proposal does not identify the funding source for the remaining project costs. The proposal also does not specify whether the state and CWDB would commit to funding training costs at the campus and, if so, at what cost and over what time frame.

Building Campus Would Mark New Role for State in Workforce Training. The training campus would build on an existing CWDB-funded training partnership at the ports. Under its longstanding workforce training model, the CWDB convenes training parties and funds a portion of the total training costs. Training costs might include worker pay during training, costs for curriculum development, and instructor pay. CWDB does not customarily fund the construction of physical infrastructure—in this case, the campus itself. The proposal therefore marks a new, untested role for CWDB that may not align with legislative priorities.

Issues for Legislative Consideration

The administration has provided limited information about the new training campus. As the Legislature assesses the Governor's proposal, the following issues merit consideration:

- **Existing Training Capacity.** Before moving forward with this proposal, the Legislature will want to confirm that existing training capacity at the Southern California ports is insufficient to meet future workforce training demand.
- **Workforce Labor Supply.** According to the administration, the campus would help address a workforce and skills shortage. It will be important for the Legislature to consider how the campus would alleviate these shortages and help prevent goods movement delays in the future. Furthermore, the Legislature might want to inquire about how port worker unions and the port authority manage labor supply and support new hiring and training.

- **Identifying and Addressing Other Potential Causes of Workforce Shortage.**

The administration has indicated that expanded training access is needed to ensure a stable and skilled workforce at the ports. Many other factors also could contribute to workforce insufficiencies. The Legislature could direct the administration to identify other potential bottlenecks to a stable and skilled workforce. With this information available, the state could consider taking steps to also address these areas of concern.

- **State's Role in Recruiting New Workers.**

Under normal circumstances, the state has a limited role in determining who enrolls in training programs. (We would note that CWDB's flagship training program—High Roads Training Partnership—does prioritize underserved workers.) Given the state's larger financial role here, it will be important for the Legislature to ensure that parties recruit in a way that is consistent with state priorities.

- **Understanding Need for State Funding.**

Throughout the state, ports and other facilities operate training sites. To better understand the need for state funding, the Legislature will want to request the administration provide additional information on how these sites have been funded and built in the past, as well as why the proposed campus needs state funding, while other training sites have not required state funding.

- **Outstanding Project Costs and Ongoing Operational Costs.**

The Legislature will want to confirm that full project funding has been committed before appropriating state funds to build the campus. After the campus has been built, training programs that take place there will need ongoing funding. Before acting on this proposal, the Legislature will want to request the administration provide additional information on whether the state plans to provide funding for operational costs in the future, and if so, at what ongoing level.

CAPACITY TO ISSUE COMMERCIAL DRIVER'S LICENSES

Governor's Proposal

Provides \$6 Million for Extended Field Office Hours. The Governor's budget includes \$6 million from the General Fund in 2022-23 for DMV to fund overtime for 200 Licensing Registration Examiners, as well as the necessary office and support staff, so that field offices with wait times of 30 days or more for commercial drive tests can offer additional testing slots on Saturdays. According to the department, expanding the number of commercial drive tests available as proposed will increase test capacity by 3,800 tests per month.

Provides \$34 Million to Lease Two Commercial Drive Test Centers. The Governor's budget provides \$3.5 million from the General Fund in 2022-23 (and \$10 million annually from 2023-24 through 2025-26) for DMV to lease dedicated commercial drive test centers in the Bay Area and northern Los Angeles County. These two centers would each consolidate three existing testing locations. (Currently, the testing locations proposed

to be consolidated lack sufficient dedicated space for commercial drive tests.) The two centers would also create additional capacity for 300 additional commercial drive tests per month. If the requested funding is approved, DMV expects the two new centers to open by spring 2023.

Assessment

Wait Times for Commercial Drive Tests Have Increased Due to Couple of Factors. In recent years, DMV has reported an increase in wait times for individuals applying for their commercial driver's license (CDL). For example, in 2021, applicants had to wait, on average, 36 days for a commercial drive test, compared to 22 days in 2019. However, the number of CDL applications actually decreased to 4,932 in 2020-21 from 5,064 in 2018-19. As such, the recent increase in wait times likely is more attributable to reasons other than an increase in the demand for CDLs. Based on our communications with the administration, there appears to be two primary reasons for the increased wait times:

- Pandemic-Related Test Cancellations.** DMV closed or limited field office activities several times throughout 2020 and 2021 due to the pandemic. For example, DMV canceled all drive tests statewide on December 14, 2020 due to the surge in COVID-19 cases and did not resume tests until February 1, 2021. This required previously scheduled tests to be rescheduled and delayed, increasing wait times for both applicants with previously scheduled tests as well as applicants seeking new appointments.
- Disruptions in Availability of Testing Locations.** DMV has reported several disruptions with their commercial drive test locations, which has led to canceling or rescheduling appointments. Of the 23 DMV locations that administer commercial drive tests, four are dedicated commercial drive test centers, which are located in Fontana, Fresno, Gardena, and West Sacramento. While these four centers have sufficient space to accommodate large vehicles required for commercial drive tests, the other test locations frequently do not, and often have to utilize public streets and alleys as well as shared parking lots to conduct the tests. For example, the test location in Lancaster uses a subleased parking lot at a municipal stadium to conduct their test. However, DMV frequently is forced to cancel or reschedule test appointments when the stadium needs the space for events. Such disruptions have also contributed to increased wait times for commercial drive tests.

Proposal Seems Reasonable to Address Current Issues Leading to Increased Wait Times for Commercial Drive Tests... We find that the proposal is a reasonable approach to addressing the two primary factors that have led to increased wait times. In the near term, expanding testing capacity through the use of overtime would allow the department to process the backlog of applications delayed due to pandemic-related test cancellations and disruptions at test locations. For example, funding overtime would expand the available testing slots immediately, increasing DMV's testing capacity from 5,000 tests monthly

to 8,800 tests monthly for a year. In the long term, the department could stabilize testing availability and expand testing capacity by having dedicated space for commercial drive tests, instead of having to rely on frequently unavailable public or shared spaces.

...But Wait Times Could Vary Depending on Changes in Demand for CDLs. In addition to the factors described above, wait times for commercial drive tests could be impacted by changes in the number of CDL applications. For example, while the number of CDL applications are currently stable, it is possible that the demand for CDLs could increase in the coming months, due to a rising need for truck drivers to move goods. In this case, wait times could increase if the number of CDL applications increases at a pace not readily accommodated by the existing CDL testing capacity. Alternatively, the demand for CDLs could decrease due to other factors. For example, at the time of this analysis, DMV recently implemented a new federal regulation which requires CDL applicants to provide proof of driver training. This additional requirement could discourage some potential CDL applicants from applying, and therefore, possibly decrease the number of CDL applications. Continued assessment of the demand for commercial drive tests is needed to determine whether additional testing capacity is warranted beyond the time frame of this proposal.

Motor Vehicle Account (MVA) Is More Appropriate to Support Proposed Activities. The state currently collects an \$83 fee from CDL applications, which is deposited into the MVA. Given that the proposed activities would directly support the department's work in processing CDLs, they should be funded through the MVA, rather than the General Fund as proposed by the Governor. Currently, the MVA is expected to be in relatively stable condition for the next couple of years to support the proposed costs.

Recommendations

Shift Fund Source to MVA. The costs associated with this proposal are directly related to processing commercial drive tests, which the state collects a fee to support. Therefore, we recommend the proposal be funded through the MVA instead of the General Fund.

Require Ongoing Reporting. As discussed above, whether the increased wait times for commercial drive tests will be an ongoing or one-time issue is unclear. We recommend the Legislature require DMV to report by January 1, 2026 monthly wait times for commercial drive tests, the number of CDL applications

received each month, and the number of CDL applicants served by region per month for the four years of proposed funding. Additional information on the demand for CDLs would allow the Legislature to determine whether ongoing funding for the commercial drive test centers is needed beyond 2025-26.

OPERATIONAL AND PROCESS IMPROVEMENTS AT THE PORTS

Governor's Proposal

Provides \$30 Million for Port Operational and Process Improvements. The Governor's budget includes \$30 million one-time General Fund in 2022-23 for grants to make operational and process improvements at the state's ports to help alleviate supply chain problems. The grants would be administered by GO-Biz. GO-Biz is still developing this proposal, but it has suggested that the grant funding could be used to improve data interconnectivity between the ports to enable efficient cargo movement.

Assessment

Administration Is Still Developing Proposal. The Federal Maritime Commission currently is **identifying** data interconnectivity problems at the ports and how the adoption of common data standards could address port congestion. The Federal Maritime Commission anticipates that it will present its findings in spring 2022. The administration has noted that GO-Biz is meeting with the ports, federal government, and other stakeholders and that it likely will submit a spring proposal reflecting the outcomes of those discussions.

Improved Data Interconnectivity Might Address Supply Chain Problems... Ports, ocean carriers, marine terminal operators, trucking companies, and railroads lack common data standards that would allow for efficient sharing of cargo records and other relevant information about port and cargo handling operations. The lack of data standards has for many years caused

supply chain inefficiencies. Unfortunately, prior international efforts to harmonize data standards among the various stakeholders have been unsuccessful. Should common data standards be widely adopted, these changes could not only alleviate port congestion in California, but also improve freight operations globally.

...But State Role Is Unclear. As we noted in our overarching comments, it is reasonable for the state to have an interest in promoting goods movement given the importance of trade to the state's economy. However, the adoption of shipping data standards is a concern with an international scope. Federal agencies may therefore be better situated than the state to play a coordinating or incentivizing role. Moreover, the primary beneficiaries of adopting common data standards would primarily be private, for-profit companies. Once the administration has finalized and provided to the Legislature the details of this grant proposal, the Legislature should consider whether the request is an appropriate use of state General Fund.

Issues for Legislative Consideration

As the Legislature assesses the Governor's proposal for operational and process improvements at the state's ports, some key issues that merit legislative consideration include:

- **Proposal Lacks Key Details.** Without more information about how the funding would be allocated and used, it is difficult for the Legislature to fully evaluate the merits of the proposal and determine whether the proposal aligns with its priorities.

- ***Need for State Funding Unclear.***
Improving data interconnectivity and alleviating port congestion has clear benefits for the state. However, the efficient movement of goods in the global supply chain is truly a matter of international concern. The primary beneficiaries of more efficient goods movement are private, for-profit corporations. In considering the updated proposal in the spring, the Legislature will want to evaluate whether the administration has provided a clear justification for state involvement.
- ***Other State Agencies May Be Better Suited to Administer This Program.*** Should the Legislature determine that state funding for operational and process improvements at the ports is appropriate, it will want to then consider which agency is most suited to administer the new program. GO-Biz has a cross-cutting coordination role for the state's key economic issues but has limited expertise in technical goods movement issues. CalSTA or the Office of Freight Planning in the California Department of Transportation might be better suited to effectively administer the grant program.

LAO PUBLICATIONS

This report was prepared by Eunice Roh, Chas Alamo, and Brian Weatherford, and reviewed by Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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