BUSINESS TRANSPORTATION AND HOUSING

Overview of Business, Transportation and Housing

Expenditures for business, transportation and housing departments and programs are proposed to increase over the current year, primarily due to increased expenditures for highway and rail capital outlay improvements.

Expenditures for business, transportation and housing programs are proposed to total $4.3 billion, which is about 7.7 percent of all state funds proposed in the Governor's Budget for 1992-93. This level of expenditure is an increase of $551 million, or 15 percent, over the estimated expenditures for the current year.

Chart 1 shows that business, transportation and housing expenditures from all state funds increased by $2.3 billion since 1985-86, representing an average annual increase of 10 percent. Expenditures for these programs remained relatively constant as a share of expenditures from all state funds from 1985-86 to 1988-89, with the proportion steadily increasing thereafter primarily due to increases in transportation expenditures.

The chart also shows that when adjusted for inflation, state expenditures increased at an average annual rate of about 6 percent.

Spending by Major Programs

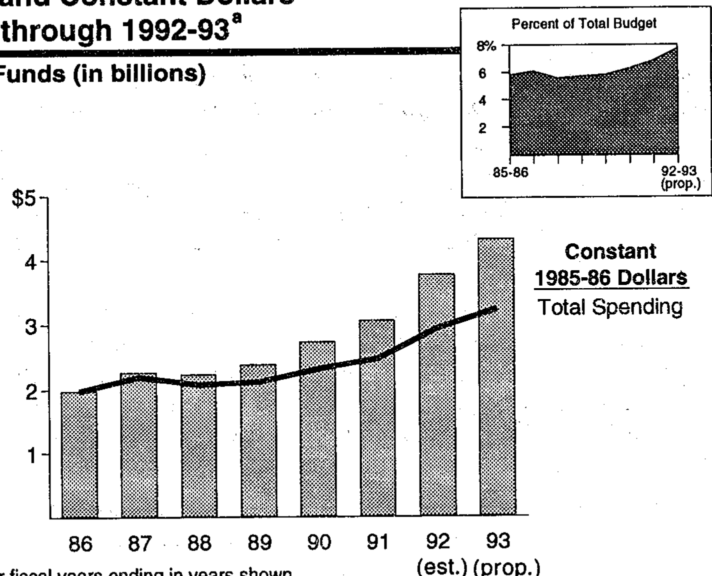
Chart 2 shows expenditures for the major business, transportation, and housing programs from 1989-90 through 1992-93. The Governor's Budget proposes a significant increase in transportation expenditures for 1992-93, primarily for highway and rail capital improvements. Expenditures for business programs are also proposed to be higher in the budget year mainly due to the establishment of a reserve for earthquake damage claims to be paid from the California Earthquake Recovery Fund. In contrast, expenditures for housing programs are proposed to be lower because certain housing bond funds will have been fully expended in the current year.

Chart 2 also shows that mass transportation expenditures have experienced the greatest rate of increase of all expenditures for business, transportation and housing programs. The increase is due to the additional funds made available by Propositions 108 and 116, passed by the voters on the June 1990 ballot. Highway transportation expenditures also increased steadily since 1989-90 as the passage of Proposition 111 (also on the June 1990 ballot) made additional gas tax revenues available for highway improvements. The increase in business program expenditures since 1990-91 reflects the implementation of the statewide earthquake insurance program which provides coverage against earthquake damage on residential housing.

Chart 1

Business, Transportation and Housing Expenditures Current and Constant Dollars 1985-86 through 1992-93[a]

All State Funds (in billions)



[a] Data are for fiscal years ending in years shown.

Factors Driving Program Costs

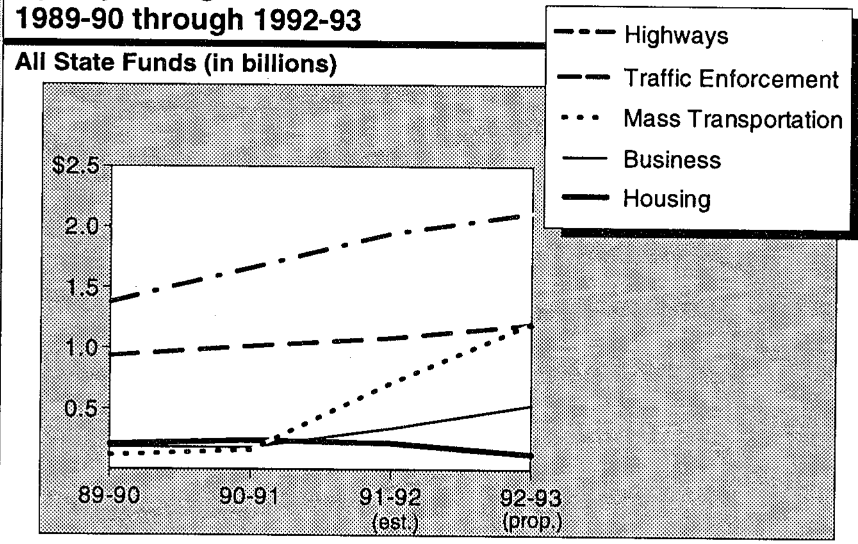
This section examines the specific factors responsible for increases in business, transportation and housing program costs in recent years, which also are likely to drive expenditures for the next several years. These include:

Demographic Changes. Transportation demand increases with growth in population and economic activity. With the increase in the number of drivers and vehicles, there is correspondingly higher usage of the state's highways and road system, necessitating system improvement and increased maintenance and operations expenditures as well as an increase in traffic licensing and enforcement activities. The growing population also increases the demand for housing and alternative mass transportation modes.

State Policy Changes. Up until 1990-91, transportation activities have been funded on a pay-as-you-go basis. The passage of Propositions 108 and 116 authorized the state to use general obligation bonds for rail capital outlay expenditures. This policy change has significantly changed the state's role in funding mass transportation rail activities and will allow a sustained higher level of transportation expenditures in future years.

Chart 2

Business, Transportation and Housing Expenditures By Major Program 1989-90 through 1992-93



Another policy change is the establishment of the state-managed California Residential Earthquake Recovery Fund to pay claims for earthquake damages on residential units. Up until 1990, coverage for earthquake damages was provided exclusively by private insurance.

Major Budget Changes

The Governor's Budget proposes an increase of $1 billion in mass transportation (rail) and highway capital outlay improvements from state and bond funds. The budget also requests $45 million to pay Loma Prieta earthquake-related costs under the California Disaster Assistance Program. Table 1 summarizes the major changes in the business, transportation, and housing program in 1992-93.

Table 1

Business, Transportation and Housing Programs Proposed Major Changes for 1992-93[a]

Business	Requested:	$526 million	
	Increase:	$180 million	(+34%)

- ⊞ $3.7 million to restore tourism marketing program

Housing	Requested:	$129 million	
	Decrease:	$131 million	(-50%)

- ⊞ $45 million for California Disaster Assistance Program to pay Loma Prieta earthquake-related costs

Transportation	Requested:	$4.5 billion	
	Increase:	$756 million	(+20%)

- ⊞ $462 million for mass transportation/rail improvements
- ⊞ $539 million in highway capital outlay
- ⊞ $15.3 million for congestion relief on state highways
- ⊞ $5.6 million for graffiti removal
- ⊞ $6.9 million for CHP telecommunications services and equipment
- ⊞ $15.3 million for DMV to implement various newly enacted legislation
- ⊞ $5.1 million for DMV administrative license suspension activities

[a] Includes expenditures from Proposition 108 and 116 bond funds.

The budget also proposes the following transfers from various special funds to the General Fund.

- $96 million from the State Transportation Fund for rail bond debt service.
- $16 million from interest earnings in the Seismic Safety Retrofit Account over the current and budget years.

The effect of these transfers is to reduce the amount of money available for transportation programs in the budget year.

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. A fuller discussion of these issues is contained in our analysis of the affected department or program which follows this overview.

- *Office of Tourism.* The budget "restores" funding for a program the impact of which is unproven. (See Item 2200, Department of Commerce.)
- *Disaster Assistance Program.* The program to provide low interest loans to people whose housing is damaged or destroyed in a natural disaster provides an unnecessary state subsidy to cover property owners who could and should insure themselves. (See Item 2240, Department of Housing and Community Development.)
- *Federal Transportation Act.* The new federal transportation act will provide up to $2 billion in additional funds for California from 1992-93 through 1998-99. Legislative action may be required to implement the act and to take advantage of special opportunities for new programs. (See Item 2660, Department of Transportation.)
- *Project Delivery.* The Department of Transportation's delivery of highway projects in 1990-91 was short of the department's goal by $500 million, or 28 percent, but improved over the previous year. (See Item 2660, Department of Transportation.)
- *State-Local Transportation Program.* The budget proposes no new funding for the program which provides state matching funds for locally funded transportation improvements. As a result, many local projects will be delayed. (See Item 2660, Department of Transportation.)
- *Rail Bonds.* The use of rail bonds from Proposition 108 and 116 has been slow. Consequently, additional bond funds will not be needed until at least 1993-94. (See Item 2660, Department of Transportation.)
- *Motor Vehicle Account Condition.* The Motor Vehicle Account faces a deficit in the current year. For the budget year and beyond, fee increases, funding shifts, and/or expenditure reductions are needed to avoid a deficit. (See Item 2740, Department of Motor Vehicles.)

Department of Alcoholic Beverage Control
Item 2100

Expenditures

Requested 1992-93	$20,247,000
Estimated 1991-92	20,231,000
Actual 1990-91	23,814,000
Requested increase $16,000 (+0.08 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Alcoholic Beverage Control (ABC), a constitutional agency established in 1954, has the exclusive power, in accordance with the laws enacted by the Legislature, to license the manufacture, importation, and sale of alcoholic beverages in California, and to collect license fees. The department is given power to deny, suspend, or revoke licenses for good cause. In the current year, the department has 23 district and branch offices throughout the state, as well as a headquarters in Sacramento.

Overview of the Budget Request

The budget proposes to fund the ABC at the current-year level.

The budget proposes expenditures of $20.2 million for the ABC in 1992-93. This is $16,000, or less than 1 percent, more than current-year expenditures. Table 1 displays the expenditure levels for the department from 1990-91 through 1992-93.

Substantial Unallocated Reductions in Current Year. This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 18 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Table 1

Department of Alcoholic Beverage Control
Program Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Licensing	$13,191	$13,108	$14,173	8.1%
Compliance	10,623	7,123	6,074	-14.7
Administration (distributed)	(2,478)	(2,327)	(2,327)	—
Totals	**$23,814**	**$20,231**	**$20,247**	**0.1%**
General Fund	*$22,849*	*$19,395*	*$19,395*	—
Reimbursements	*965*	*836*	*852*	*1.9%*
Personnel-Years	**398.5**	**294.2**	**310.5**	**5.5%**

The ABC has absorbed its cuts primarily through the reduction in personnel within the compliance and enforcement unit. The budget proposes a reduction of 15 percent of the authorized personnel-years in this unit and the closure of five field offices in 1992-93. If the reduction is approved, the unit will have reduced its authorized personnel-years roughly 51 percent since 1990-91.

General Fund Revenues Projected to Increase. The ABC is supported by the General Fund and produces revenue for the General Fund. It collects license fees and various other fees and charges, according to schedules established by statute. All money collected by the department is deposited in or transferred to the General Fund. The department estimates that its activities will generate revenues to the General Fund of $31.8 million in 1992-93. This is an increase of $2.2 million, or 7.3 percent, over estimated current-year revenues. This increase primarily is attributable to the projected growth in original license and annual fees.

Alcoholic Beverage Control Appeals Board
Item 2120

Expenditures

Requested 1992-93	$508,000
Estimated 1991-92	523,000
Actual 1990-91	445,000
Requested decrease $15,000 (-2.9 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Alcoholic Beverage Control Appeals Board was established by an amendment to the State Constitution in 1954. Upon request, the board reviews decisions of the Department of Alcoholic Beverage Control relating to the assessment of fines or the issuance, denial, transfer, suspension, or revocation of any alcoholic beverage license. The board's single program consists of providing an intermediate appeals forum between the department and the state's courts of appeal.

The board consists of a chairperson and two members appointed by the Governor with the consent of the Senate. The board members meet once each month, alternating between Los Angeles and San Francisco. Pursuant to Ch 1335/88 (SB 2316, Dills), board members are paid an annual salary of $25,000.

Overview of the Budget Request

The proposed budget is essentially a workload budget for the board.

The budget proposes an appropriation of $508,000 from the Alcoholic Beverage Control Appeals Fund for support of the board in 1992-93. The amount is $15,000, or 2.9 percent, less than estimated current-year expenditures. The reduction primarily reflects an adjustment in pro rata administrative charges from the current year.

State Banking Department
Item 2140

Expenditures

Requested 1992-93	$16,638,000
Estimated 1991-92	16,137,000
Actual 1990-91	15,163,000
Requested increase $501,000 (+3.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The primary responsibility of the State Banking Department is to protect the public from losses that may result when a state-chartered bank or other financial entity under the department's jurisdiction fails. In addition, the department is responsible for (1) licensing and regulating California branches of foreign banks, trust companies, issuers of money orders and travelers checks, transmitters of money abroad and Business and Industrial Development Corporations (BIDCOs), and (2) certifying securities as legal investments for public agencies in California.

The department is supported by revenues from the annual assessment of licensees and other license and examination fees.

Overview of the Budget Request

The budget proposes essentially the same funding level as in the current year to support the department in 1992-93, except for replacement of the office automation system.

The department proposes total expenditures of $16.6 million in 1992-93, which is $501,000, or 3.1 percent, more than the estimated current-year expenditures. This increase is primarily due to replacing the department's obsolete office automation system.

To finance the proposed expenditures, the budget requests $16.2 million from the State Banking Fund and $304,000 from the Local Agency Deposit Security Fund. In addition, the department expects to collect $159,000 in reimbursements.

Department of Corporations

Item 2180

Expenditures

Requested 1992-93	$27,468,000
Estimated 1991-92	26,390,000
Actual 1990-91	25,449,000
Requested increase $1,078,000 (+4.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Corporations is responsible for protecting the public from unfair business practices and fraudulent or improper sale of financial products and services. The department fulfills its responsibility through the following major programs: (1) investment, (2) lender-fiduciary, and (3) health care service plans.

The department is supported by license fees and regulatory assessments which are deposited in the State Corporations Fund.

Overview of the Budget Request

The budget proposes additional funding for increased regulatory workload in 1992-93. In addition, the budget reflects a technical change in the method for funding the department.

The budget proposes total expenditures of $27.5 million in 1992-93 which is $1.1 million, 4.1 percent, more than the estimated current-year expenditures. The additional funding is for the anticipated increase in the regulatory workload of the investment and lender-fiduciary programs of the department.

In addition, the budget shows that in 1992-93, the department is to be funded from the State Corporations Fund, instead of from a combination of General Fund money and reimbursements. This is because Ch 1018/91

DEPARTMENT OF CORPORATIONS—Continued

(SB 1011, Beverly) created the State Corporations Fund as a depository of all assessments, fees, and reimbursements which support the department's programs. In the current and past years, these assessments and fees have been deposited in the General Fund as revenues and reimbursements instead.

Department of Commerce
Item 2200

Expenditures

Requested 1992-93	$40,834,000
Estimated 1991-92	37,205,000
Actual 1990-91	28,848,000
Requested increase $3,629,000 (+9.8 percent)	

Fiscal Recommendations

Total recommended reduction	$4,560,000

MAJOR ISSUES

- **Office of Tourism.** The budget "restores" funding for a program whose impact is unproven.
- **Business Retention.** Additional staff would provide little actual assistance, resulting in few benefits.

Findings and Recommendations

Analysis Page

1. **Tourism Augmentation Reverses 1991-92 Legislative Cuts. Reduce Item 2200-001-001 by $3.7 million.** Recommend reduction because the program's benefits are unproven and the budget "restores" Office of Tourism funds cut by the Legislature last year. 17

2. **Additional Business Retention Staff Not Justified. Reduce Item 2200-001-001 by $860,000.** Recommend reduction because the benefits of the current program are unclear, and proposed staff will provide little actual assistance. 19

General Program Statement

The principal mission of the Department of Commerce (DOC) is to promote business development in the state. The department provides business assistance, grants, loans and loan guarantees funded with state and federal funds. It promotes tourism, technology development and the film industry in California. The department also provides economic development research and policy advice.

Overview of the Budget Request

The budget proposes to augment the following three DOC program areas supported by the General Fund: (1) tourism, (2) business retention, and (3) small business environmental assistance.

The budget proposes expenditures of $41 million by the DOC in 1992-93. This is about $3.7 million, or 9.8 percent more than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93.

Table 2 summarizes the significant changes proposed for the budget year.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 13 percent from the General Fund in 1991-92. (This reduction is 6.8 percent of the department's total budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

DEPARTMENT OF COMMERCE—Continued

Table 1

Department of Commerce Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Business Development	$3,375	$2,785	$3,798	36.4%
California Film Commission	800	859	866	0.8
Competitive Technology	1,548	4,751	4,781	0.6
Marketing and Communications	546	455	463	1.8
Tourism	7,141	3,912	7,584	93.9
Local Development	12,964	8,893	7,444	-16.3
Small Business	1,633	14,845	15,198	2.4
Economic Research	841	705	700	-0.7
Administration (distributed)	(2,811)	(2,524)	(2,577)	2.1
Totals	**$28,848**	**$37,205**	**$40,834**	**9.8%**
General Fund	*$29,847*	*$20,197*	*$25,183*	*24.7%*
Special funds	*-3,667*	*12,075*	*10,551*	*-12.6*
Federal funds	*1,216*	*4,029*	*4,021*	*-0.2*
Reimbursements	*1,452*	*904*	*1,079*	*19.4*
Personnel-Years	**134.1**	**136.9**	**152.3**	**11.2%**

Table 2

Department of Commerce
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	All other Funds	Reimburse-ments	Total
1991-92 Expenditures (revised)	$20,197	$16,104	$904	$37,205
Baseline adjustments				
Limited-term program adjustments	-$13	-$2,734	—	-$2,747
Offset of returned disaster relief funds	—	452	—	452
Grants	—	-2,727	—	-2,727
Loans	—	1,750	—	1,750
Loan repayments	—	1,553	—	1,553
Subtotals	(-$13)	(-$1,706)	—	(-$1,719)
Workload changes	—	$24	-$20	$4
Program changes				
Increase Office of Tourism spending	$3,700	—	—	$3,700
Increase business retention staff	861	—	—	861
Small business environmental services	438	—	—	438
Other environmental assistance staff	—	$150	$195	345
Subtotals	($4,999)	($150)	($195)	($5,344)
1992-93 Expenditures (prop.)	$25,183	$14,572	$1,079	$40,834
Change from 1991-92				
Amount	$4,986	-$1,532	$175	$3,629
Percent	24.7%	-9.5%	19.4%	9.8%

Analysis and Recommendations

Budget Revisits Tourism Funding Issue

We recommend deletion of $3.7 million requested to augment the Office of Tourism's budget because (1) the office's impact is unproven and (2) the proposal restores funding cut by the Legislature in 1991-92. (Reduce Item 2200-001-001 by $3.7 million.)

In 1991-92, the Legislature reduced the proposed budget of the department's Office of Tourism by $3.7 million. (The Legislature denied the office an augmentation, and also cut into the office's baseline budget by $2.6 million.) The state faced a severe budget shortfall, and the Legislature determined the tourism program to be a lower priority than many other programs funded by the General Fund.

DEPARTMENT OF COMMERCE—Continued

In addition, the administration has reduced the Office of Tourism's budget by another $600,000 in implementing the department's 1991-92 unallocated "trigger" cuts. These reductions left the office with a total budget of $3.9 million. As a result of the funding reductions, the Office of Tourism has stopped producing certain tourism materials and has dropped certain advertising campaigns.

In 1992-93, the administration proposes to augment the Office of Tourism's budget by $3.7 million from the General Fund to "restore" funding to the level initially proposed for 1991-92. However, we recommend against this augmentation because, as we discuss below, the benefits of this program are questionable. Additionally, the augmentation restores funding cut by the Legislature in 1991-92.

Impact of Program Unproven. As we discussed in the *Analysis of the 1990-91 Budget Bill* (p. 213), the department has been unable to document the benefits of this program. The department tracks the number of inquiries the Office of Tourism receives for tourism information and then estimates the number of tourist visits to the state which will result from these inquiries. However, tourism inquiries have shown little relationship to state spending on the Office of Tourism. For example, in 1988-89 when the office's funding was reduced, the number of inquiries actually increased. Inquiries have declined in the current fiscal year along with Office of Tourism funding. However, the decline in inquiries actually began in the prior fiscal year when program funding was much higher, but the national recession had begun. Thus, we believe the current decline in inquiries has more to do with the ongoing recession than with Office of Tourism spending.

However, the main problem with counting inquiries and the resulting visits is that it does not indicate how many people visited the state specifically as a result of receiving Office of Tourism materials. People who request tourism information probably are already interested in visiting parts of California. Many probably would visit with or without receiving Office of Tourism materials.

Other Factors Probably Have Greater Impact on State's Tourism Industry. The tourism industry has been relatively strong in California during the past several years. In fact, overall tourism spending in California has risen steadily from 1985 through 1990. The Office of Tourism's spending appears to be a very minor factor in the state's tourism industry. Overall tourism spending in the state totaled over $50 billion in 1990. It seems unlikely that the health of this industry will be determined by the amount that the Office of Tourism spends each year on tourism promotion. Other factors such as private sector spending, the state of the economy, and California's many attractions more likely have a much greater effect on the state's tourism industry.

In view of the above, we recommend against the $3.7 million augmentation of the Office of Tourism's funding.

Business Retention Proposal Advertises More Than it Can Deliver

We recommend rejection of the proposal to add $860,000 and 14 positions for one-on-one calls on businesses because of questionable benefits. (Reduce Item 2200-001-001 by $860,000.)

As part of the DOC's business development and retention efforts, the department currently has eight professionals who work with businesses to help solve problems firms may be having in the state. The staff provides direct assistance such as helping a firm find a site or get a certain permit. and also refers firms to other locally provided business assistance. The staff works with in-state firms and firms wishing to locate in California. The current staff members also have called on about 60 top California manufacturers in the past year to discuss future expansion or relocation plans and to encourage firms to stay in the state.

For 1992-93, the administration proposes to add 14 staff members to this program, specifically to make more one-on-one business calls on manufacturers. The goal is for the staff to call on 6,500 manufacturers each year. These new positions would be supported by $860,000 from the General Fund.

We believe adding these staff members will produce few results, as we discuss below.

Budget Proposal Does Not Focus on Providing Assistance. The work-plan calls for the new staff to make 10 one-on-one calls on businesses each week, spending about three and one-half hours with each firm. Making these brief visits would take 99 percent of the staff members' time. The plan also suggests the staff will provide in-depth assistance to some firms. However, only 1 percent of the staff time is budgeted for this in-depth assistance, or for the other kinds of functions the current staff performs such as assisting firms locating from out of state. Moreover, the work-plan indicates that if many firms require actual assistance, the firms will be referred to local assistance providers. Thus, the thrust of this proposal is to add staff who will provide little direct assistance.

Current Program Benefits Also Unclear. Even if the additional staff were being added to perform the same functions the current staff performs, the benefit would be questionable. The department can point out which firms the current DOC staff has "assisted," and which firms maintained or expanded business operations in California. However, the department cannot identify the specific role a staff member had in influencing such a firm's decision. While the DOC claims credit for numerous firms staying or

DEPARTMENT OF COMMERCE—Continued

expanding in the state, it is more likely that other factors were more important in such decisions, including:

- Proximity to markets.
- Quality of transportation.
- Quality of education and the labor force.
- Regulatory factors (workers' compensation costs, environmental regulations).
- Tax burden.
- Real estate costs.

Problems related to these factors are not going to be altered by the visit of one DOC representative.

Assistance is Available from Local Entities. Another consideration is that much of the direct assistance provided to firms contacted by the DOC staff is currently provided by local governments and local economic development agencies. The current DOC staff estimates it refers businesses to local assistance providers in 50 percent of the cases. Thus, firms can get the same assistance by going directly to local governments and economic development agencies.

It may be helpful to maintain a minimal level of staff in the department to respond to business requests, as is currently the case. However, we believe that adding the type of additional staff contained in this proposal would provide little benefit. Consequently, we recommend deletion of the proposed $860,000 to fund additional business development and retention positions.

Unitary Fund Programs

Item 2225

Expenditures

Requested 1992-93	None
Estimated 1991-92	$2,000,000
Actual 1990-91	2,000,000
Requested decrease $2,000,000 (-100 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Unitary Fund was established to address the state's infrastructure and economic development needs. The fund is supported by the annual fees of corporations who elect the "water's-edge" method of taxation — having their income apportioned for state tax purposes on the basis of their domestic, as opposed to worldwide, business activities. The fund revenues are intended to be used to support infrastructure and economic development purposes. However, in the past couple of years the bulk of the funds have been transferred to the General Fund.

Overview of the Budget Request

The budget proposes no direct expenditures on Unitary Fund programs in 1992-93, since all of the revenues will be transferred to the General Fund and the Agricultural Export Program.

The budget estimates revenues of $34.4 million to the Unitary Fund in 1992-93. Of this amount, $33.4 million will be transferred to the General Fund in the budget year, and the remaining $1 million will be transferred to the Agricultural Export Program under the Department of Food and Agriculture.

Department of Housing and Community Development

Item 2240

Expenditures

Requested 1992-93	$205,301,000
Estimated 1991-92	338,138,000
Actual 1990-91	398,201,000
Requested decrease $132,837,000 (-39 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **California Disaster Assistance Program.** This program provides an unnecessary state subsidy to cover property owners who could and should insure themselves.

Findings and Recommendations

Analysis Page

1. **California Disaster Assistance Program Provides an Unnecessary State Subsidy.** Recommend enactment of legislation to prospectively eliminate the program because it encourages persons to inappropriately shift their property disaster risk onto the state. 25

General Program Statement

The mission of the Department of Housing and Community Development (HCD) is to help promote and provide decent housing for Californians. As part of this mission, the department is responsible for implementing and enforcing building standards. The department also administers a variety of housing development and rehabilitation programs. Additionally, the department provides policy advice and statewide guidance on housing issues.

Overview of the Budget Request

The proposed HCD budget maintains funding for most of the department's ongoing programs while reflecting a significantly reduced level of activity in its bond fund-supported programs.

Overall, the budget proposes expenditures of $205 million by HCD in 1992-93. This is about $133 million, or 39 percent, less than estimated current-year expenditures. A large portion of this budget reduction ($124 million) is due to fewer bond funds being available in the budget year, as the department expects the bulk of funds from the most-recently passed bond measures will have been spent by the end of the current year. The budget also requests $45 million in additional disaster assistance funds, down slightly from the current-year level. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. The reduction is 3.9 percent of the department's total budget from all funds and is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Table 1

Department of Housing and Community Development Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Codes and Standards	$19,431	$20,652	$21,147	2.4%
Community Affairs	377,197	316,069	182,723	-42.2
Housing Policy Development	1,573	1,539	1,553	0.9
Administration				
Distributed	(8,636)	(11,299)	(12,085)	7.0
Distributed to other funds	—	-122	-122	—
Totals	**$398,201**	**$338,138**	**$205,301**	**-39.3%**
General Fund	*$42,888*	*$57,011*	*$54,728*	*-4.0%*
Bond funds	*192,446*	*158,801*	*34,810*	*-78.1*
Other special funds	*106,123*	*50,634*	*44,856*	*-11.4*
Federal funds	*50,727*	*65,060*	*65,177*	*0.2*
Reimbursements	*6,017*	*6,632*	*5,730*	*-13.6*
Personnel-Years	**667.5**	**716.4**	**709.3**	**-1.0%**

Table 2 shows changes to the department's baseline budget and changes proposed for the budget year.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 2

Department of Housing and Community Development Proposed 1992-93 Budget Changes

(in thousands)

	General Fund	Special Funds	All Other Funds	Reim-burse-ments	Total
1991-92 Expenditures (rev.)	$57,011	$209,435	$65,060	$6,632	$338,138
Baseline adjustments					
One-time equipment costs	-$14	-$82	—	-$14	-$110
One-time salary savings relief	—	-1,092	-$126	-7	-1,225
Administration redistributed to special funds	—	420	18	66	504
Disaster assistance adjustments	-47,300	364	—	—	-46,936
Other adjustments	19	276	5	20	320
Subtotals	(-$47,295)	(-$114)	(-$103)	($65)	(-$47,447)
Program changes					
Local assistance					
Changes in bond funds available	—	-$124,952	—	—	-$124,952
Changes in continuing programs	—	-7,906	—	—	-7,906
Federal programs	—	—	-$159	—	-159
Disaster assistance program	$45,000	—	—	—	45,000
Subtotals	($45,000)	(-$132,858)	(-$159)	(—)	(-$88,017)
Administration					
Salary savings relief	—	$2,352	—	—	$2,352
Department training	—	209	$11	$30	250
Information systems staff/study	—	366	20	74	460
Administration redistributed	$12	42	3	12	69
Century Freeway staff reduction	—	—	—	-1,131	-1,131
Audit staff and contract	—	176	10	36	222
Legislative unit staff	—	58	3	12	73
Housing Assistance staff	—	—	332	—	332
Subtotals	($12)	($3,203)	($379)	(-$967)	($2,627)
1992-93 Expenditures (prop.)	**$54,728**	**$79,666**	**$65,177**	**$5,730**	**$205,301**
Change from 1991-92					
Amount	-$2,283	-$129,769	$117	-$902	-$132,837
Percent	-4.0%	-62.0%	0.2%	-13.6%	-39.3%

Analysis and Recommendations

Disaster Assistance Program Provides Unnecessary State Subsidy

We recommend the enactment of legislation to prospectively eliminate the California Disaster Assistance Program because the program provides an unnecessary state subsidy to cover property owners who could and should insure themselves.

The California Disaster Assistance Program (CALDAP) was established following the 1989 Loma Prieta earthquake to provide low-interest loans to people whose housing is damaged or destroyed in a natural disaster. The program was established by Ch 4x/89 and Ch 6x/89 (SB 3x, Marks and SB 4x, Leroy Greene). Loans are for repair or replacement of homes and rental property damaged or destroyed in a natural disaster. The terms of the program are shown in Table 3.

Table 3

CALDAP Program Terms

Eligibility	Loans are available for single-family housing and for rental property.
Loan of Last Resort	Individuals must exhaust other state, federal, and private resources before they are eligible for CALDAP.
Loan Terms	Primarily 20-year loans. 3 percent simple interest. Deferred payment until loan expires or property sold.
Loan Limits	Statutes set a $30,000 limit per single-family home, and rental property also has a per-unit loan limit. But these limits are commonly waived by the department.
Disasters Covered	The program is available to victims of any disaster in which the Governor calls a state of emergency.

By the end of 1992-93 the state will have provided $189 million for CALDAP loans, including $45 million requested for the budget year to cover the last of the Loma Prieta claims. As Table 4 shows, the bulk of the assistance will have been for Loma Prieta claims, but assistance has also been provided for several smaller disasters since the program was established. The Oakland Hills fire is also expected to generate claims in 1992-93. The department has not yet estimated potential costs or requested funding for claims resulting from this fire.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Table 4

Assistance Provided by CALDAP 1989-90 through 1992-93 (projected)

(In millions)	
Loma Prieta earthquake—October 1989	$175
Other disasters	4[a]
Butte County snowstorm—February 1990	NA
Upland Area earthquake—spring 1990	NA
Santa Barbara fire—spring 1990	NA
Yosemite/Tehama fires—fall 1990	NA
Sierra Madre earthquake—spring 1991	10
Oakland Hills fire—fall 1991	NA
Total Assistance (proj.)	**$189**

[a] Individual assistance estimates not available on these disasters.

State Provides Significant Subsidy on CALDAP Loans. Since CALDAP is a loan program, the state expects to receive repayment of the principal and 3 percent annual interest when the loan term expires or the property is sold. However, because the interest rate is low and payment deferred for up to 20 years, the state provides a significant subsidy on the CALDAP loans. The subsidy grows larger the longer the loan is outstanding. For example on a $50,000 loan (the current CALDAP loan average), repaid in 10 years, the state subsidy would be equivalent to giving the applicant an up-front grant of $18,500, or 37 percent of the original loan amount. (Generally, the $18,500 represents the present value of the state's foregone interest on the loan if these funds had been retained in the Pooled Money Investment Account.) On a $50,000 loan repaid after 20 years the subsidy would be equivalent to an up-front grant of $31,200, or 62 percent of the initial loan amount. Thus, because of the terms under which the loans are provided, this program results in significant costs to the state.

CALDAP Program Results in State Assumption of Personal Risks. The goal of CALDAP is to help individuals recover in the event that their housing is damaged or destroyed as a result of a natural disaster. However, by covering both commercial and noncommercial property in all disasters, the CALDAP encourages people to shift their property risk to the state. For example, CALDAP offers state-subsidized assistance to rental property owners, even though insurance is available and the owner should bear these expenses as a cost of doing business. Additionally, CALDAP provides assistance in disasters such as floods and fires, where insurance is obtainable and is required for many people. Earthquake insurance has posed more of a problem for people as is discussed below. However, outside of earthquake disasters, the goal of this program can be achieved by people adequately insuring themselves rather than through the provision of direct state assistance.

New State Earthquake Insurance Program Eliminates Need for CALDAP in Earthquake Disasters. Based on our review, we conclude that CALDAP assistance was only justified in the case of providing earthquake assistance for single-family homes, where insurance has been relatively expensive and deductibles relatively high (often 10 percent to 25 percent). The combination of a high deductible and high costs has made it less likely that people will carry earthquake insurance, even though earthquakes have the potential to produce severe damage when they do occur. In the Loma Prieta earthquake, it is estimated that only 10 percent of the victims carried earthquake insurance. However, the state's new basic earthquake insurance plan should make it more reasonable to expect single-family homeowners to insure themselves in the future.

Following Loma Prieta, the state established a basic earthquake insurance program for single-family homes under the California Earthquake Recovery Act, Ch 1165/90 (SB 2902, Hill). Under this program, effective January 1992, all homeowners are charged a surcharge on their property insurance ranging from $12 to $60, depending on the earthquake risk of a particular area. The surcharges are used to fund an earthquake insurance pool to provide homeowners up to $15,000 for structural damages resulting from an earthquake. The intent of this program is to cover the cost of the deductible on private insurance, thereby encouraging people to get private earthquake insurance to provide the additional protection needed on their property.

State Should Focus Energies on Improving Earthquake Insurance Program. The earthquake insurance program does have some significant issues which still need to be worked out, including:

- Current law does not provide adequate sanctions against people who fail to pay or insurers who fail to collect the surcharges.
- It will take several years for an adequate pool to build up to cover the cost of a major disaster. Thus, the state may have to supplement the pool if a disaster occurs before the pool is solvent.
- $15,000 may not be sufficient to cover the private insurance deductible cost for some homes.

However, these concerns should be addressed directly by making improvements to the existing earthquake insurance program, rather than by continuing CALDAP as a back-up to the insurance program. The insurance program is a better long-term solution than CALDAP for providing earthquake protection because it requires homeowners to bear the cost of their disaster protection rather than requiring all taxpayers to bear the cost. Additionally, continuing to provide CALDAP assistance to earthquake victims actually works against the intent of the earthquake insurance program of having people insure themselves, because CALDAP offers a state bailout for people who choose not to get additional protection beyond that provided under the state's earthquake insurance program.

CALDAP offers an unnecessary state subsidy to cover risk for property owners who could and should be insuring themselves. Additionally, with the availability of a new state earthquake insurance program, CALDAP is no longer needed to provide earthquake assistance. Consequently, we recommend that legislation be enacted to prospectively eliminate CALDAP. The CALDAP funding and positions should be provided in 1992-93 to cover the remaining Loma Prieta claims and any Oakland Hills fire claims which the department may receive.

Department of Insurance
Item 2290

Expenditures

Requested 1992-93	$393,790,000
Estimated 1991-92	232,084,000
Actual 1990-91	66,315,000
Requested increase $161,706,000 (+69.7 percent)	

Fiscal Recommendations

Total recommended reduction	$1,065,000
Recommendation pending	15,429,000

MAJOR ISSUES

- **Earthquake Insurance.** Timely implementation of the residential earthquake insurance program is threatened by uncertainty of funding and enforcement.

Findings and Recommendations

	Analysis Page
1. **Earthquake Insurance Program.** Withhold recommendation on $15.4 million, pending receipt of updated information on program funding.	32

2. **Telecommunication Equipment. Reduce Item 2290-001-217 by $1,065,000.** Recommend reduction because the request is not justified. 33

General Program Statement

Insurance is the only interstate business that is regulated entirely by the states, rather than by the federal government. In California, the Department of Insurance (DOI) is responsible for regulating the activities of insurance companies, agents and brokers. Currently, there are about 2,000 insurers generating total premiums of about $63 billion in California.

The department carries out its responsibilities through five programs. Under the **Regulation program**, the department licenses and regulates insurers, agents, and brokers and provides insurance-related information and assistance to the public. The **Fraud Control program** investigates and prosecutes persons suspected of having committed insurance fraud. Under the **Tax Collection program**, the department collects and audits various taxes paid by insurance companies and brokers. Since 1991, the department is also responsible for managing a basic **Earthquake Insurance program**. Management and operation of the department is the responsibility of the **Administration program.**

Overview of the Budget Request

The budget requests significant increases for data processing, regulatory, and fraud control activities. In addition, the budget proposes to set aside funds in the California Residential Earthquake Recovery Fund to pay claims for damage in the event of earthquakes during 1992-93.

The budget proposes total expenditures of $393.8 million, including $82.4 million from the Insurance Fund and $311.4 million from the California Residential Earthquake Recovery Fund, for departmental support in 1992-93 and for payment of potential claims. This is an increase of $161.7 million, or 70 percent, more than estimated current-year expenditures.

Of the total increase, $155.7 million in earthquake insurance surcharge revenues is proposed to be set aside in the Earthquake Recovery Fund to pay claims in the event of an earthquake during 1992-93. The remaining $6 million, from the Insurance Fund, is requested to fund increases in various regulatory and enforcement workload and to consolidate and integrate the electronic database.

Table 1 shows expenditures and personnel-years for the department in prior, current, and budget years.

DEPARTMENT OF INSURANCE—Continued

Table 1

Department of Insurance Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Regulation	$42,026	$44,625	$45,110	1.1%
Fraud control	7,213	9,292	10,925[a]	17.6
Tax collection and audit	352	740	755	2.0
Earthquake Recovery Fund management	—	155,712[b]	311,425[c]	100.0
Administration	16,724	21,715	25,575	17.8
Totals	**$66,315**	**$232,084**	**$393,790**	**69.7%**
Insurance Fund	*$66,315*	*$76,372*	*$82,365*	*7.8%*
California Residential Earthquake Recovery Fund	—	*155,712*	*311,425*	*100.0*
Personnel-Years	**744.1**	**977.0**	**1,021.9**	**4.6%**

[a] Includes $5 million allocation to district attorneys for prosecuting insurance fraud cases.

[b] Consists of $16.1 million for program administration and $139.6 million for potential claims.

[c] Consists of $15.4 million for program administration and $296 million for potential claims.

Analysis and Recommendations

Implementation of Proposition 103 Stalled

Proposition 103, adopted by the voters in November 1988, required property-casualty insurance rates to be "rolled back" to their November 1987 levels, and reduced by 20 percent under certain conditions. The Insurance Commissioner is responsible for developing regulations and implementing the rate rollbacks. The initiative also required the DOI to review and approve all changes in property-casualty insurance rates before they go into effect (referred to as "prior approval of rates").

The budget proposes about $26 million from the Insurance Fund for the implementation of Proposition 103 during 1992-93.

Implementation Through 1990 Was Limited. In last year's *Analysis,* we pointed out that, primarily because of disputes and legal challenges, the implementation of Proposition 103 through 1990 was limited essentially to the development of regulations, as well as review and approval of a limited number of rate changes.

Actions by New Commissioner Run Into Legal Roadblocks. In January 1991, the Insurance Commissioner suspended action on all pending applications for rate changes, repealed the existing regulations and issued emergency regulations for rate rollback and prior approval. However, the effective date of these regulations was delayed by legal disputes until the fall of 1991 when the DOI held rate rollback hearings and resumed review of rate change applications under the emergency regulations. The Commissioner subsequently ordered rate rollbacks equivalent to about $2.5 billion in property-casualty premiums. However, no rebates have been paid because the Commissioner's order is being appealed.

In January 1992, the emergency regulations for rate rollbacks and prior approval of rates expired. Furthermore, the Office of Administrative Law (OAL) rejected the permanent regulations proposed by the department. As a consequence, at the time this analysis was prepared, no rollback and prior approval regulations — temporary or permanent — were in effect. The DOI was planning to appeal the OAL decision.

In summary, the actions taken to date to implement Proposition 103 have either been rejected or are being challenged in administrative or judicial proceedings. Depending on the outcome of these challenges, implementation of the program may have to start anew in 1992.

Earthquake Insurance Program Implementation Delayed Until 1992

Chapter 1165, Statutes of 1990 (SB 2902, Hill), established a basic, mandatory earthquake insurance program covering structural damage of up to $15,000 for owner-occupied dwellings. The coverage is to be paid through an annual surcharge, ranging from $12 to $60, on homeowner insurance policies. The amount of the surcharge is determined by the DOI. However, it is billed and collected by insurers providing homeowner policies, for deposit in the California Residential Earthquake Recovery Fund managed by the department.

Originally, the program was to become operative July 1, 1991. As a result of delays in funding start-up costs for the program, the operative date of the program was delayed until January 1, 1992.

Earthquake Insurance Program Still Not Adequately Funded

We withhold recommendation on $15,429,000 requested for continued administration of the Earthquake Recovery Fund Management program in 1992-93, pending receipt of a specific plan from the Departments of Insurance and Finance prior to the budget hearings indicating that the expenditures for contracted services proposed for this program are adequately funded.

The budget proposes $311.4 million from the California Residential Earthquake Recovery Fund for management of a basic earthquake insurance program in 1992-93. Of this total amount, $15.4 million is requested for administration of the program. Another $296 million is proposed to be set aside for payment of potential claims from earthquakes.

Our review indicates that there are at least two reasons why the $15.4 million will not be adequate to fund the program administration expenditures proposed in the budget.

Budget Fails to Fund Major Expenditures Anticipated for 1992-93. Our review indicates that administration of the program in 1992-93 will exceed $15.4 million. In addition to paying staff support, the department has contractual obligations of $15 million for surcharge accounting and potential claim processing services. Additionally, the department estimates a need for about $40 million to purchase $200 million in reinsurance policies during 1992-93. Reinsurance is necessary to spread a portion of the risk to private insurers and thus reduce the liability to the Earthquake Recovery Fund during the initial years of the program, when there are not sufficient reserves in the fund to pay claims in the event of a serious earthquake. Our review indicates that the contracted service is partially funded, but the reinsurance is not funded at all in the proposed budget.

Budget-Year Revenues May Not Materialize. The budget projects surcharge revenues of about $296 million to the Earthquake Recovery Fund in 1992-93. Our analysis, however, indicates that this amount may not be realized for two reasons. First, billing of homeowners is slower than anticipated because the department did not provide surcharge rates to insurers in time to be included in homeowners' insurance bills due in January 1992. Second, current law does not provide the department with the authority to enforce collection of the surcharges. Thus, it is not certain that all homeowners will actually pay. The budget, however, assumes essentially full compliance. The DOI intends to correct both of these problems with legislation and regulations. The earliest that corrections could become effective and solve the anticipated cash-flow problems for the fund is September or October 1992.

For these reasons, we withhold recommendation on the $15.4 million proposed for the program's administration until the Legislature receives a specific plan from the DOI and the Department of Finance, prior to the budget hearings, indicating that the expenditures for contracted services and reinsurance to be incurred by this program in 1992-93 are adequately funded.

Telecommunication Equipment Not Justified

We recommend a reduction of $1,065,000 requested for the purchase of telecommunication equipment because the request is not adequately justified. (Reduce Item 2290-001-217 by $1,065,000.)

The budget requests $1.1 million for telecommunication equipment. However, at the time this analysis was prepared, the DOI was unable to identify the specific telecommunication equipment to be purchased and the services to be provided from the proposed expenditure. Accordingly, we recommend that the $1.1 million requested for telecommunication equipment be deleted.

Office of Real Estate Appraisers
Item 2310

Expenditures

Requested 1992-93	$1,212,000
Estimated 1991-92	1,680,000
Actual 1990-91	232,000
Requested decrease $468,000 (-27.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Office of Real Estate Appraisers (OREA) was created by Ch 491/90 (AB 527, Hannigan) to establish licensing, certification, and regulation programs for certain real estate appraisers, specifically in response to federal requirements. The certification or licensing requirement was to become effective January 1, 1992. Subsequently, federal legislation authorized the states to postpone the effective date until January 1, 1993. In response, OREA extended the state effective date to March 1, 1992 and will sponsor urgency legislation in early 1992 to further postpone the state effective date until July 1, 1992.

In addition to certification and licensing, the office must also investigate complaints against certified or licensed appraisers.

Overview of the Budget Request

The budget proposes a significant reduction in funding for the office due to an anticipated, major reduction in the certification and licensing workload during 1992-93.

The OREA proposes total expenditures of $1.2 million in 1992-93, which is $468,000, or 28 percent, less than the estimated current-year expenditures. The reduction is primarily due to lower certification and licensing costs because the office anticipates that the majority of the appraisers who are federally required to be state certified or licensed will obtain the necessary certificate or license during 1991-92.

The proposed expenditures will be funded from the Real Estate Appraisers Regulatory Fund which is the depository of various fees charged for certification or licensing.

Department of Real Estate
Item 2320

Expenditures

Requested 1992-93	$29,028,000
Estimated 1991-92	31,358,000
Actual 1990-91	25,842,000
Requested decrease $2,330,000 (-7.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Real estate is responsible for protecting the public by (1) enforcing the Real Estate Law and (2) regulating offerings of subdivided property, real property securities and certain other real estate transactions.

The department is supported by license and regulatory fees deposited in the Real Estate Fund.

Overview of the Budget Request

The budget proposes a significant reduction in funding for the department primarily due to reduced operating expenses and equipment costs and other one-time expenses incurred during 1991-92.

The budget proposes expenditures of $29 million in 1992-93. This is $2.3 million, or 7.4 percent, less than the estimated current-year expenditures. The proposed expenditures consist of $28.1 million from the Real Estate Fund and $875,000 from reimbursements. The reduction in expenditures for 1992-93 is the result of (1) savings in operating costs from the completed office automation system and (2) elimination of one-time expenditures during 1991-92 for endowments to state universities and colleges for real estate education and research.

Department of Savings and Loan
Item 2340

Expenditures

Requested 1992-93	$3,848,000
Estimated 1991-92	3,828,000
Actual 1990-91	3,666,000
Requested increase $20,000 (+0.5 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Future Need for Department Should Be Addressed.** A continued funding shortfall together with a declining number of state-chartered savings and loan associations necessitate decisions prior to 1994-95 regarding the future of the state-charter option for associations and the need for a separate department to regulate them. 37

General Program Statement

The Department of Savings and Loan is responsible for protecting investments of the public by regulating the activities and examining the financial records of state-chartered savings and loan associations.

The department is supported from the Savings Association Special Regulatory Fund. Revenues to the fund are derived primarily from annual assessments on the assets of individual associations.

Overview of the Budget Request

The budget proposes essentially the same expenditure level for the department in 1992-93 as in the current year.

The department proposes total expenditures of $3.8 million in 1992-93, which is $20,000, or 0.5 percent, more than the estimated current-year expenditures. To finance the proposed expenditures, the budget requests $3.8 million from the Savings Association Special Regulatory Fund. In addition, the department expects to collect $22,000 in reimbursements.

Table 1 shows expenditures and personnel-years for the department in the past, current, and budget years.

Table 1

Department of Savings and Loan Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Examination	$2,228	$2,137	$2,132	-0.2%
Appraisal	427	351	356	1.4
Facilities licensing	99	326	335	2.8
Administration	912	1,014	1,025	1.1
Totals	**$3,666**	**$3,828**	**$3,848**	**0.5%**
Savings Association Special Regulatory Fund	*$3,663*	*$3,806*	*$3,826*	*0.5%*
Reimbursements	*3*	*22*	*22*	—
Personnel-Years	**37.6**	**39.9**	**39.9**	—

Analysis and Recommendations

Decision Needed on Future of the Department

Assessment revenues that support the department continue to fall short of departmental expenditures so that by 1994-95 there will not be sufficient funds for an effective regulatory program. The Legislature needs to determine the future of providing a state-charter option for savings and loan associations and the need for a separate department to regulate these associations prior to that time.

In the last two *Analyses*, we discussed how the ongoing reduction in the number of state-chartered savings and loan associations resulted in a declining funding base for support of the department and adversely affected the department's ability to regulate effectively these associations. As an interim approach, we recommended that the department be consolidated with other departments that regulate other state-chartered lenders in order to provide adequate oversight of state-chartered savings and loan associations. As a long-term approach, we further recommended that the authority to operate state-chartered savings and loan associations — and the need for a separate department to regulate them — be terminated. (Please see pages 247-249 of both the *Analyses of the 1990-91 and 1991-92 Budget Bills* for detailed discussions of these recommendations.)

Our review of the department's proposed budget indicates that the funding problem will continue in 1992-93. As in 1990-91 and the current year, the department's proposed expenditures will continue to exceed assessment revenues in 1992-93. Specifically, the budget proposes to spend $3.8 million to regulate state-chartered savings and loan associations in 1992-93. However, the department anticipates collecting only $2.1 million in assessment revenues. Consequently, $1.7 million in proposed expenditures will be funded from reserves in the Savings Association Special Regulatory Fund.

Our analysis further indicates that with the continuing decline in the number of state-chartered associations and assets subject to assessment, further reduction in the department's regulatory activities will be needed in 1993-94 in order to keep expenditures within assessment revenues and the remaining reserve in the fund. By 1994-95, there will not be sufficient funds to maintain an effective regulatory program. Consequently, the Legislature will need to make a decision prior to that time regarding the future of state-chartered savings and loan associations and the need for a separate department to regulate them.

California Transportation Commission
Item 2600

Expenditures

Requested 1992-93	$368,524,000
Estimated 1991-92	312,389,000
Actual 1990-91	1,494,000
Requested increase $56,135,000 (+18 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Transportation Commission (CTC) is responsible for the adoption of multi-year transportation capital outlay programs, the allocation of funds appropriated by the Legislature to carry out those programs, and for the development of transportation policies. In 1990-91, the CTC became responsible for administering the grant program created by the *Clean Air and Transportation Improvement Act of 1990* (Proposition 116). The proposition authorized the state to sell $1.99 billion in general obligation bonds to provide funds mostly for rail capital improvements.

Overview of the Budget Request

The budget proposes a significant increase in CTC expenditures for the budget year due to an increase in grants for rail and other mass transportation improvement projects.

The budget proposes total expenditures of $368.5 million by the commission in 1992-93. This is $56.1 million, or 18 percent, above estimated current-year expenditures. The increase is due to a projected $66 million increase in grants for rail and other mass transportation improvement projects to be funded from Proposition 116 bonds (The Clean Air and Transportation Improvement Fund). The budget also reflects a reduction of $9.9 million in 1992-93 expenses for the Environmental Enhancement and Mitigation

Demonstration Program. This is because beginning in 1992-93, the budget displays the activities of that program under the Department of Transportation (Item 2660) budget.

Special Transportation Programs
Item 2640

Expenditures

Requested 1992-93	$55,000,000
Estimated 1991-92	57,413,000
Actual 1990-91	43,250,000

Requested decrease $2,413,000 (-4.2 percent)

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **State Transportation Assistance.** Recommend that the Legislature amend this item to conform to actions taken in Item 2660 regarding the Transportation Planning and Development Account. 39

General Program Statement

The Special Transportation Programs item provides funding from the Transportation Planning and Development (TP and D) Account for the State Transportation Assistance (STA) program. Under the STA program, local transportation agencies receive funds on a formula basis for capital and operating assistance for public mass transit systems and, under specified conditions, for construction and maintenance of local streets and roads.

Analysis and Recommendations

Funding Level for STA Program

We recommend that the Legislature amend this item of the Budget Bill (Item 2640-101-046) to conform to the actions it takes on the use of TP and D Account funds under Item 2660-101-046.

The budget requests $55 million from the TP and D Account in 1992-93 for the STA program. This is $2.4 million, or 4.2 percent, below estimated expenditures in the current year. Because the STA program is funded on a formula basis, this reduction is primarily the result of an increase in other expenditures and transfers proposed to be funded from the TP and D Account in 1992-93.

Our analysis of all the proposed changes to the use of TP and D Account money is under the Department of Transportation item in this *Analysis*. (Please see Item 2660.) As a result, we recommend that the Legislature take up this item when it considers Item 2660 and that it conform this item to the actions on the various proposed uses of TP and D Account funds.

Department of Transportation
Item 2660

Expenditures

Requested 1992-93	$6,299,078,000
Estimated 1991-92	5,176,524,000
Actual 1990-91	3,822,158,000

Requested increase $1,122,554,000 (+21.7 percent)

Fiscal Recommendations

Total recommended reduction	$15,730,000
Recommendation pending	10,200,000

MAJOR ISSUES

- **Fund Transfers.** Fewer funds will be available for transportation projects because the Governor's Budget proposes to transfer about $117 million as follows:
  - $96 million from the State Highway Account and Transportation Planning and Development Account to the General Fund for debt service on rail bonds.
  - $16 million in accumulated interest from the Seismic Safety Retrofit Account to the General Fund.
  - $4.8 million from the Aeronautics Account to the General Fund.
- **New Federal Act.** The new federal transportation act will provide up to $2 billion in additional funds for California from 1992-93 through 1998-99. Legislative action may be required to implement the act and to take advantage of special opportunities for new programs.

Continued

DEPARTMENT OF TRANSPORTATION—Continued

- **Project Delivery.** The Department of Transportation's delivery of highway projects in 1990-91 was short of the department's goal by $500 million, or 28 percent, but improved over the previous year.
- **State-Local Partnership Program.** The budget proposes no new funding for the state-local partnership program and, as a result, many local projects will be delayed.
- **Seismic Retrofit.** The Department of Transportation will not meet statutory deadlines for the seismic retrofit of state highway bridges.
- **Rail Bonds.** The use of rail bonds from Propositions 108 and 116 has been slow. Consequently, additional bond funds will not be needed until at least 1993-94.

Findings and Recommendations

Analysis Page

Transportation Programming and Funding

1. **More Funding Is Available for Highways in Long Term.** Total resources available for highway programming could be $2.5 billion over the next seven years, $1 billion more than anticipated. However, fewer funds could be available for programs that rely exclusively on state resources. 48
2. **Lower Resources Are Available for Transit Programs.** Revenues are less than projected in both the current and budget years, resulting in fewer funds for the State Transportation Assistance and Transit Capital Improvement programs. 50
3. **Use of Transportation Funds for Debt Service of Rail Bonds.** Recommend the Legislature amend the Budget Bill to provide State Highway Account and Transportation Planning and Development (TP and D) Account funds as a loan to the General Fund to be repaid with interest. 52

DEPARTMENT OF TRANSPORTATION—Continued

14. **Support Work on Local Tax-Funded Projects Could Be Less.** Recommend Budget Bill language to provide for fund reversion if local tax measures are invalidated. 73

15. **Project Delivery Performance Shows Improvement.** Delivery of highway projects in 1990-91 was short of Caltrans' goal by $500 million, or 28 percent, but overall delivery improved over the previous year. 74

16. **Project Development Costs May Be Understated.** The department's project development costs may have exceeded the legislative limit of 20 percent in 1990-91. 76

State-Local Partnership Program

17. **No Request for New Funds.** The budget proposes no new funding and, as a result, many projects will be delayed. 77

Mass Transportation

18. **Better Coordination Will Improve Rail Program Implementation.** Recommend adoption of supplemental report language directing Caltrans and the CTC to jointly develop a common database for Propositions 108 and 116 rail projects. 80

19. **Use of Rail Bond Funds Is Slow.** Additional bond funds will not be needed until at least 1993-94. 81

20. **Transfer of Bond Funds.** Recommend Caltrans report, prior to budget hearings, on ways to expedite bond fund transfers and the need for pre-audits of local agency claims. 82

Program Change Proposals

21. **Graffiti Removal. Reduce Item 2660-001-042 by $4.3 million.** Recommend reduction of 61 PYs because request does not consider more cost-efficient use of state resources. 83

22. **Maintenance Inventory. Reduce Item 2660-001-042 by $3.8 million.** Recommend reduction of 67 PYs because request for additional landscape maintenance and administrative staff is not adequately justified. 83

23. **Encroachment Permits. Reduce Item 2660-001-042 by $975,000.** Recommend reduction of 15.2 PYs because the department has not considered reasonable and more cost effective alternatives to accommodate chronic workload increases. 84

24. **Congestion Relief. Reduce Item 2660-001-042 by $1,566,000.** Recommend reduction of 24.6 PYs because additional High Occupancy Vehicle lane and Traffic Operation Center staffing is not justified. Withhold recommendation on $10.2 million and 11.4 PYs for freeway service patrols pending receipt of more information. 84
25. **Recruitment Incentives. Reduce Item 2660-001-042 by $1 million.** Recommend reduction of 1.4 PYs because higher salaries for entry-level engineers are not necessary. 85
26. **Geographic Information System. Reduce Item 2660-001-042 by $1.1 million.** Recommend deletion of 6.2 PYs because Caltrans has not taken necessary steps to implement a complex new computer system. 86
27. **Vanpool Revolving Fund. Reduce Item 2660-001-853 by $2.5 million.** Recommend deletion of funds for the purchase of vans because the request does not solve van acquisition problems. 87
28. **Rail Project Monitoring. Reduce Item 2660-001-046 by $489,000.** Recommend reduction of 7.6 PYs for rail monitoring because the request is not justified on a workload basis. 87

General Program Statement

The Department of Transportation is responsible for planning, coordinating, and implementing the development and operation of the state's transportation system. These responsibilities are carried out in five programs. Three programs — Highway Transportation, Mass Transportation, and Aeronautics — concentrate on specific transportation modes. In addition, Transportation Planning seeks to improve the planning for all travel modes, and Administration encompasses management of the department. Expenditures for the Administration program are prorated among the four operating programs.

Overview of the Budget Request

The budget proposes significant increases in expenditures for highway capital outlay and rail capital improvement in 1992-93.

The budget proposes expenditures of $6.3 billion by Caltrans in 1992-93. This is about $1.1 billion, or 22 percent, more than estimated current-year expenditures. Table 1 displays the expenditures and staffing levels for the department, by program, from 1990-91 through 1992-93.

DEPARTMENT OF TRANSPORTATION—Continued

Table 1

Department of Transportation Budget Summary 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Aeronautics	$10.2	$9.9	$6.7	-32.3%
Highway Transportation	3,587.2	4,644.7	5,232.5	12.7
Mass Transportation	197.0	492.9	1,026.7	108.3
Transportation Planning	27.8	29.1	33.2	14.1
Administration (distributed)	(200.1)	(215.9)	(220.6)	2.2
Totals[a]	**$3,822.2**	**$5,176.5**	**$6,299.1**	**21.7%**
State funds	*$1,891.8*	*$2,445.7*	*$3,068.6*	*25.5%*
Federal funds	*1,497.6*	*1,617.4*	*1,746.7*	*8.0*
Reimbursements	*432.8*	*1,113.4*	*1,483.8*	*33.3*
Personnel-Years	**18,014.0**	**19,329.1**	**19,560.7**	**2.0%**

[a] Detail may not add to total due to rounding.

Table 2 summarizes the major changes in proposed activities in 1992-93.

Table 2

Department of Transportation Proposed 1992-93 Budget Changes[a]

(dollars in millions)

	State Highway Account	TP & D Account	Passenger Rail Bond	Federal Funds	Reimbursements & Others	Total
1991-92 Expenditures (rev.)	$1,939.7	$96.5	$231.9	$1,617.4	1,291.0	$5,176.5
Baseline adjustments	137.6	2.6	405.6	122.7	386.5	1,054.9
Workload and program changes						
Highways	(46.8)	—	—	(2.5)	(2.0)	(51.2)
Capital outlay	7.9	—	—	2.3	0.3	10.5

Continued

	State Highway Account	TP & D Account	Passenger Rail Bond	Federal Funds	Reimburse-ments & Others	Total
Local assistance	0.2	—	—	—	—	0.2
Program development	0.1	—	—	0.1	0.1	0.3
Operations	16.2	—	—	—	1.5	17.7
Maintenance	22.4	—	—	—	0.1	22.5
Mass transportation	0.1	11.4	—	3.2	-7.0	7.9
Planning	—	2.8	—	0.8	0.5	4.1
Administration	4.1	—	—	—	0.4	4.5
Subtotals	($51.0)	($14.2)	(—)	($6.6)	($-4.2)	($67.7)
1992-93 Expenditures (prop.)	**$2,128.3**	**$113.3**	**$637.5**	**$1,746.7**	**$1,673.3**	**$6,299.1**
Change from 1991-92						
Amount	$188.6	$16.8	$405.6	$129.3	$382.3	$1,122.6
Percent	9.7%	17.4%	174.9%	8.0%	29.6%	21.7%

[a] Detail may not add to total due to rounding.

Analysis and Recommendations

Our review of the Department of Transportation's budget contains four sections. These include analyses of the following: (1) funding for state transportation programs, (2) the highway transportation program, (3) the mass transportation program, and (4) specific budget increases requested for 1992-93.

TRANSPORTATION PROGRAMMING AND FUNDING

California finances its transportation program with a combination of state, federal, local and private funds. The multi-year expenditure of state and federal funds for highway and mass transportation capital projects is contained in the seven-year State Transportation Improvement Program (STIP) and the five-year Highway Systems, Operations and Protection Plan (HSOPP), both of which are adopted in even-numbered years by the CTC. Other highway projects are programmed through a variety of capital programs created by the *Transportation Blueprint for the Twenty-First Century,* enacted by voters in June of 1990.

This section examines:

- The department's and CTC's projection of transportation funds for the seven-year period from 1992-93 through 1998-99.
- Various uses of transportation funds proposed in the Governor's Budget, including the use of funds to pay rail bond debt service.
- The impact of the new federal transportation act on the state's transportation program.

- The implications of a recent Supreme Court decision for state and local transportation programs.
- The legislatively mandated progress in implementing the 10-year plan.

Projection of Transportation Funds

Highway Funding

With respect to the seven-year highway funding plan, we find total resources available for highway programming could be $2.5 billion — $1 billion more than anticipated. However, state resources could be $1 billion less, which would result in fewer funds available for programs that rely exclusively on state resources.

State law requires Caltrans to submit to the CTC a Fund Estimate projecting (state and federal) revenues and expenditures for highway projects over a seven-year period. The 1992 Fund Estimate is intended to provide an approximate amount of resources available for programming projects in the 1992 STIP which covers the seven years from 1992-93 through 1998-99.

Fund Estimate Shows $1.5 Billion Available for Additional Projects in the 1992 STIP. The 1992 Fund Estimate projects total resources for highways of $27.9 billion and total expenditures of $26.4 billion from 1992-93 to 1998-99. This leaves about $1.5 billion available for additional projects, primarily in the last two years of the 1992 STIP, as shown in Table 3. Of this amount, the Fund Estimate sets aside $888 million for Flexible Congestion Relief and Interregional Roads to meet the 10-year funding targets specified in the *Transportation Blueprint for the Twenty-First Century.* Thus, $637 million remains available for additional programming in other types of highway projects.

Fund Estimate Expenditures Far Exceed Revenues in Early Years. Table 3 also shows the difference between resources and expenditures for each year covered by the Fund Estimate. Because more projects have already been programmed in 1992-93 (and in previous years) than anticipated resources, the Fund Estimate shows about $1.6 billion in unfunded capital outlay projects by the end of 1992-93, assuming Caltrans completes the design of these projects on schedule. The shortfall continues at a level of $1.6 billion in 1993-94 before declining to zero in 1997-98.

One of the main reasons for the shortfall stems from costs associated with the 1989 Loma Prieta earthquake. In particular, the seismic retrofit, and earthquake repair and restoration programs have added net costs of $1.5 billion to the highway program since 1989-90.

Table 3

1992 Fund Estimate
Projected Highway Revenues and Expenditures
1992-93 through 1998-99

(in millions)

	Resources	Non-STIP Expenditures[a]	STIP Expenditures	Net Surplus/(Deficit)
1992-93	$3,954	$4,123	$1,457	($1,626)
1993-94	3,645	4,822	442	(1,619)
1994-95	3,807	4,404	292	(889)
1995-96	4,028	3,383	677	(487)
1996-97	4,093	3,530	1,031	(468)
1997-98	4,161	3,616	—[b]	545
1998-99	4,231	3,251	—[b]	980

[a] Includes carry-over of previous year's deficit.
[b] The CTC will program available funds for these years.

State Resources Could Be $1 Billion Lower Than Projected. Based on the Governor's Budget, resources available from the State Highway Account (SHA) for highway programs in 1992-93 will be $223 million less than anticipated in the Fund Estimate. There are three major reasons for this shortfall. First, the budget proposes to transfer up to $85 million from the SHA to the General Fund. Second, motor vehicle fuel taxes and weight fee revenues are expected to be less than anticipated. Third, the budget proposes to use $16 million from the SHA for the California Highway Patrol to operate truck scales and inspection stations.

The effect of this reduction in the base year multiplied over the seven years covered by the Fund Estimate is dramatic. *Our analysis indicates that total state resources for highway programs could be $1 billion less than projected even if revenues grow at past rates.* Our projections assume that expenditures for the CHP continues, but that additional transfers to the General Fund will not recur beyond 1992-93.

Expenditures and Transfers Could Be More Than Anticipated. The Fund Estimate assumes that noncapital expenditures (for instance, maintenance) would grow at an average rate of 3.9 percent. If this rate of increase is greater — and past budgets indicate it could be — then expenditures could be much higher than those shown in Table 3. In addition, unanticipated expenses and transfers are likely to occur. For example, the Commission on State Mandates has ruled that the state is responsible for the costs of local seismic retrofit projects, which could result in an additional multi-million dollar expenditure from the SHA. Finally, SHA funds can be used to offset potential deficits in the Motor Vehicle Account (MVA). For the current year,

$18.5 million is expected to be transferred from the SHA to the MVA. If this recurs in the future, fewer funds would be available for highway projects.

Consequently, to the extent that revenue growth remains at projected levels, the total amount of state resources available over the Fund Estimate period could be $1 billion less than anticipated. This amount could be greater if expenditures and transfers are higher than anticipated. On the other hand, if the department holds expenditures to targeted levels and revenues grow at a greater than anticipated rate, then the total amount of state resources could meet levels projected in the Fund Estimate.

Federal Funds Windfall Could Exceed $2 Billion. Since the adoption of the Fund Estimate, the Intermodal Surface Transportation Efficiency Act of 1991 has been signed into law. The new act provides significant additional federal resources for highway transportation. Our analysis indicates that the new act could provide the state highway program with about $2 billion over the seven-year period.

Overall State and Federal Resources Could Total $2.5 Billion, But Fewer Funds Would Be Available for State-Only Programs. Our review shows that, in total, there could be $2.5 billion in resources available for additional highway projects over the 1992 STIP period — over $1 billion more than anticipated by the Fund Estimate. However, the mix of state and federal funds could be substantially different than anticipated. Because current law requires the department to use state funds first to match all available federal funds, the level of resources for programs that rely exclusively on state funds — such as state-local partnership and maintenance — may be less than anticipated.

Transit Funding

Revenues to the TP and D Account are less than projected for both the current and budget years mainly as a result of lower diesel sales. Consequently, there will be fewer funds for the State Transportation Assistance (STA) and Transit Capital Improvement (TCI) programs.

As part of the projection of available funds for transportation, the 1992 Fund Estimate also projects resources and expenditures from the TP and D Account over the seven-year STIP period. The TP and D Account derives its revenues from three sources. The largest source is sales tax on diesel fuel. A second source is the sales tax on the increase in gas tax resulting from the passage of Proposition 111. The third source is the "spillover" transfer from the Retail Sales Tax Fund which is calculated according to a statutory formula.

Projected Resources Are Too Optimistic. Our review shows that for the seven-year period, TP and D Account resources would be lower than projected in the Fund Estimate. This is mainly because diesel sales during 1990-91 declined significantly. Consequently, diesel sales tax revenues to the TP and D Account in 1991-92 are lower than anticipated, by about $15 million. For 1992-93, the Governor's Budget projects diesel sales tax revenues of $102 million — about $39 million less than projected in the Fund Estimate.

With the lower diesel sales revenues in the current and budget years, our review shows that even if revenues grow at the relatively optimistic rate assumed in the Fund Estimate, total TP and D revenues over the seven years could be $300 million less than the $1.6 billion projected.

Lower Program Funding Levels Requested for the Budget Year. In addition to lower-than-projected revenues, the budget proposes to transfer $11 million in TP and D Account funds to the General Fund to pay rail bond debt service, further reducing funds for the STA and TCI programs. (This proposal is discussed in further detail below.) To accommodate this transfer, the budget is requesting STA and TCI programs to be funded at $55 million and $30.5 million, respectively, in the budget year — compared to $57.4 million and $51.4 million in 1991-92.

Rail Bond Funds

The 1990 STIP (covering 1990-91 through 1996-97) programmed rail projects totaling $1 billion in bond funds authorized by Proposition 108. In addition, the 1990 STIP also programmed another $2 billion planned to be placed on the ballots in November 1992 and 1994. Consequently, the 1992 Fund Estimate shows no additional funds will be available for rail projects.

Governor's Budget Siphons Transportation Funds

Our review shows that the total available resources for transportation in 1992-93 will be less than anticipated in the Fund Estimate, in part, because of extraordinary transfers and uses of those moneys proposed in the budget. Some of the proposals, such as the use of SHA to support inspection stations, will reduce SHA funds on an ongoing basis, while others may have only a one-time effect. The Governor's Budget proposes various transfers of transportation funds as follows:

- $85 million from the SHA to the General Fund for debt service on rail bonds in 1992-93.
- $11 million from the TP and D Account to the General Fund for debt service on rail bonds in 1992-93.
- $11.9 million in the current year and $4 million in the budget year from the Seismic Safety Retrofit Account (SSRA) to the General Fund.
- $8 million from the SHA to the SSRA for seismic retrofit work.

- $18.5 million from the SHA to the MVA in the current year.
- $1.8 million in the current year and $3 million in the budget year from the Aeronautics Account to the General Fund.

Some of the proposed transfers, such as the transfer from the SHA to the MVA, are authorized by current law. Other proposed transfers, however, do not have explicit statutory authority. For instance, the use of transportation funds for rail bond debt financing is a policy question which the Legislature must address in view of the current fiscal situation of the state and the Legislature's priorities regarding state expenditures.

Use of Transportation Funds for Rail Bond Debt Service

We recommend that the Legislature amend Budget Bill language to provide SHA and TP and D Account funds as a loan to the General Fund, to be repaid with interest, in order to pay for debt service of bonds issued under Propositions 108 and 116 for 1992-93.

The budget proposes to transfer from the SHA and the TP and D Account to the General Fund amounts sufficient to pay in the budget year the debt service of bonds issued pursuant to Propositions 108 and 116. (The bonds authorized by these two propositions are general obligation bonds whose debt service typically is paid from the General Fund.) Based on cash flow needs of projects to be funded by rail bonds, the Governor's Budget projects a need to transfer $85 million from the SHA and $11 million from the TP and D Account.

Transportation Funds Can Be Used for Rail Bond Debt Service. According to Legislative Counsel, the use of both SHA and TP and D funds for debt service of rail bonds is consistent with constitutional and statutory limitations. However, SHA funds may not be used for rail vehicles or in counties which have not authorized the use of gas tax revenues for transit guideway purposes (referred to as Article XIX counties).

To address this limitation, Caltrans plans to use TP and D Account funds to pay debt service on bonds issued for rail vehicles while bonds issued for construction and right-of-way acquisition would be financed from the SHA. Our review of the anticipated use of bond funds shows that the split between SHA and TP and D funds, as projected by the department, is reasonable.

Use of Transportation Funds for Rail Bond Debt Service Has Merit in the Short Term. In authorizing $1 billion in general obligation bonds to be issued under Proposition 108, the Legislature's objective was to increase the funds available for rail transportation purposes beyond the resources available in the SHA and TP and D Account. Similarly, one objective of Proposition 116 was to significantly increase resources for rail and mass transportation improvements. In our view, the budget proposal is inconsistent with the Legislature's objectives of increasing funds for rail transportation programs. This is because the use of SHA and TP and D Account money for debt service, particularly on an ongoing basis, will decrease the total available resources for transportation purposes.

However, for the short term, given the state's fiscal condition, the use of transportation funds for debt service provides assurance that rail projects may proceed without the risk of administrative delays due to the lack of General Fund dollars to pay for debt service.

Zero Coupon Bonds Offer an Option. Under current law, the State Treasurer has the discretion to issue general obligation bonds in the form of zero coupon bonds which allow the state to defer interest payments until their maturity. Issuing rail bonds as zero coupon bonds may provide a short-term alternative to the use of transportation funds for debt service in the budget year. However, the Treasurer's office indicates that there could be disadvantages to issuing zero coupon bonds. For example, because issuance depends on favorable market conditions, the Treasurer's office cannot determine ahead of time when these bonds are appropriate. In addition, the state would have to pay out a large sum at bond maturity.

Providing Transportation Funds as a Loan to the General Fund. Another option to enable rail bonds to be issued while ensuring funds are available to pay debt service is to provide transportation funds as a loan to the General Fund. By ensuring adequate debt service for rail bonds, this alternative eliminates the risk of project delay due to limited availability of General Fund moneys. At the same time, it does not establish a policy of using state transportation funds to pay rail bond debt service on an ongoing basis.

Accordingly, we recommend that the Legislature amend language in the Budget Bill to authorize transfers from the SHA and the TP and D Account to the General Fund as a loan to pay debt service of rail bonds in 1992-93, to be repaid with interest.

Federal Transportation Act

New Federal Act Will Provide More Funds and Other Opportunities

As part of the transportation policy committees' hearings on the implementation and impact of the new federal transportation programs, we recommend that Caltrans, the CTC, and local transportation agencies report on the statutory changes that may be required to implement the new act. The agencies should also report on the feasibility of pursuing "special opportunities" and the strategy for funding the construction of unprogrammed demonstration projects.

DEPARTMENT OF TRANSPORTATION—Continued

In December 1991, the federal Intermodal Surface Transportation Efficiency Act of 1991 was enacted. The act defines the new surface transportation program and authorizes the expenditure of up to $155 billion in federal funds nationwide over six years — for federal fiscal years 1992 through 1997. Of this total, $121 billion is for highways, $31 billion is for transit and $3 billion is for other programs. The new act includes numerous changes from the previous federal program. Our review focuses on the following four areas: major program changes, funding, special opportunities for California, and the potential underfunding of demonstration projects.

New Act Makes Major Program Changes and Increases Program Flexibility. Table 4 summarizes major new and revised programs resulting from the act. In general, the new act provides states with greater flexibility in how federal funds can be spent. For example, money formerly dedicated solely to highway programs may now be used in some cases for transit projects. Conversely, money formerly dedicated to transit projects can be used for highway projects under certain conditions. The act also simplifies the federal highway program by combining what had been four major programs into two — the Interstate System and the National Highway Transportation System.

Table 4

Federal Intermodal Surface Transportation Efficiency Act of 1991 Key Programs and Provisions

Highways	
National Highway System (NHS)	• Establishes 155,000 mile system consisting of Interstates and most major primary roads.
Interstate	• Authorizes completion of system.
Surface Transportation Program	• Funds highways formerly under the primary, secondary, urban aid, and combined road programs. • Allows funds to be used for transit capital projects and wetlands mitigation.
Congestion Mitigation and Air Quality Improvement	• Funds projects in urban areas that do not meet federal clean air standards. Projects must reduce congestion and air pollution.

Continued

Interstate Maintenance	• Funds maintenance and projects previously funded by the Interstate Resurfacing, Restoration, Rehabilitation and Reconstruction program. • Disallows funding for projects which benefit primarily single-occupant vehicles.
Toll Roads	• Allows the use of federal funds for noninterstate toll roads. • Increases the federal match from 35% to 50%.
High Speed Ground Transportation Technology Demonstration Program	• Establishes three-phase program leading to the construction of a magnetic levitation (mag-lev) line.
Equity Adjustments (Minimum Allocation)	• Guarantees states a funding level of at least 90 percent of contribution to the Highway Trust Fund annually.
Transit	
Section 9 (transit capital) Grants	• Increases match to urban areas from 75 percent to 80 percent. • Allows funds to be used for highway projects in "Transportation Management Areas."
Intermodal Transportation	
Various Programs	• Establishes the Office of Intermodalism and a National Commission on Intermodal Transportation. • Provides grants to states to develop intermodal transportation plans.
Research	
Intelligent Vehicle Highway Systems (IVHS)	• Authorizes grants to nonfederal entities, including state and local governments, for operational tests.
IVHS Corridors Program	• Provides funds for the development of between 3 and 10 IVHS corridors.
Highway Safety	
State and Community Grants	• Provides grants to states with helmet and seatbelt laws.
Highway-Related Taxes	
Tax Extension	• Extends to September 30, 1999 the 2.5 cent federal fuel tax due to expire on September 30, 1995.

In addition, the act provides financial incentives for states to reduce congestion and air pollution, and to discourage the use of single-occupant vehicles. For example, the new Interstate Maintenance program will not pay

DEPARTMENT OF TRANSPORTATION—Continued

for projects that would benefit primarily single-occupant vehicles. The act also prescribes a stronger transportation planning role for regional government, emphasizes the need for the development of an intermodal transportation system, greatly increases the funding for research activities, particularly for Intelligent Vehicle Highway System (IVHS) activities, and authorizes the use of federal money for toll roads.

New Act Increases Funding Levels Significantly. The total authorization of $155 billion represents a 78 percent increase over the levels authorized in the previous act. For the highway program, funding will increase from about $69 billion to $121 billion. For transit, the level increases from $17.5 billion to $31.5 billion. The major funding categories are summarized by federal fiscal year in Table 5.

Table 5

Intermodal Surface Transportation Efficiency Act of 1991 Federal Authorizations 1992 through 1997

(in millions)

	Highways	Transit	Research	Other	Totals
1992	$18,700	$3,639	$119	$417	$22,875
1993	20,489	5,235	138	374	26,236
1994	20,479	5,125	143	381	26,128
1995	20,406	5,125	140	386	26,057
1996	20,397	5,125	145	304	25,971
1997	20,399	7,250	150	309	28,108
Totals	**$120,870**	**$31,499**	**$835**	**$2,171**	**$155,375**

These funding levels represent maximum levels, and are not necessarily the amount of funds that eventually will be made available in a given year. Actual levels will be determined annually and may be lower because transportation programs must compete for a fixed amount of federal spending authority with other federal programs. Nonetheless, compared to the funding levels available under the previous federal act, the new federal transportation program provides significantly more funds to the state.

For California, the department estimates that the state would receive about $10 billion for highway activities over the six-year period, or an annual average of $1.7 billion, as compared to an annual average of $1.4 billion under the previous act. (As a result of the federal act, we estimate that the state could receive about $2 billion more in federal funds than anticipated for the seven-year period from 1992-93 through 1998-99.)

New Act Provides "Special Opportunities" for California. The new federal act also provides states with special opportunities to enhance their transportation systems. Our review shows at least three programs the state may want to pursue.

- *Magnetic Levitation Prototype Development Program.* This is a three-phase program leading to the construction of a Magnetic Levitation Prototype. Phase 1 calls for the development of conceptual plans. Phase 2 entails contracting for detailed prototype design, and phase 3 will award a single contract to construct the line. Federal matching grants will range from 90 percent for phase 1 to 75 percent for phase 3. Participation in phase 1 may offer a low-cost opportunity to further explore the feasibility of this technology and its application to California.
- *IVHS Corridors Program.* Between three and 10 IVHS corridors that meet certain characteristics (such as traffic density 1.5 times the national average) will be funded at an 80 percent federal match. The act allows up to 50 percent of the $501 million available for the IVHS research to be spent on these corridors. California should be in a good position to pursue funding for one or more of these corridors because Caltrans already has an IVHS research program, and is currently experimenting with a variety of IVHS communication technologies in the Los Angeles area.
- *Funding for Toll Facilities and Congestion Pricing.* The act liberalizes the rules for federal participation in the financing of non-interstate toll roads. The federal share of the cost is increased from 35 percent to 50 percent for toll highways. In addition, the act funds up to three congestion pilot projects on the interstate system.

More Information Needed on Demonstration Projects. The act also provides funding for a variety of "demonstration projects" throughout the state. Typically, a 20 percent state match is required for the federal funds for these projects. In some cases, the demonstration projects identified in the act have already been programmed in the STIP, and will be financed with regular state and federal funds. Thus, using demonstration project funds could free up money for other projects.

However, the federal act also includes demonstration projects that have not been programmed in any state capital plans and are, presumably, not of high enough statewide priority to merit funding. Using state funds to match federal money set aside for these projects could siphon funds away from priority projects. Thus, it is important that the scope and total costs of these newly authorized federal projects be identified. For instance, it is likely that the federal funds would be adequate to pay for only a portion of the projects' total costs, leaving a substantial unfunded portion of the cost to be borne by the state.

Changes in State Laws Will Be Needed. Although many of the federal act's key provisions need refinement through the rule-making process, it is clear some changes in state law will be required so that the state can maximize the amount of federal funds it receives while taking advantage of the new federal programs and incentives to benefit California's transportation system. For example, by 1995 the state must redesignate its highway system to conform to the NHS. In addition, new legislation will be required to specify the sharing of surface transportation program funds with local agencies.

Analyst's Recommendations. Given the incomplete picture of the consequences of the new act at the time this analysis was prepared, we recommend that, as part of the transportation policy committees' hearings on the implementation and impact of the new federal transportation programs, the CTC, Caltrans and local transportation agencies report on the statutory changes that may be required to implement the new act in a manner that is most beneficial to the state. The hearings should also include reports from relevant agencies on the feasibility of pursuing special opportunities and the strategy for funding those demonstration projects that currently are not part of the state's transportation improvement program.

Local Transportation Funding

"Rider" Court Decision Jeopardizes Transportation Funding

The availability of local tax measure funds designated for transportation improvements may be jeopardized as a result of a recent state Supreme Court decision. We recommend that Caltrans report at the time of budget hearings on the amount of local tax revenues that are assumed for projects programmed in the 1992 STIP, HSOPP, and Transportation System Management (TSM) program, so that the Legislature may be informed of potential underfunding in the state's highway capital outlay program.

In December 1991, the state Supreme Court (Rider v. San Diego) struck down a sales tax measure passed by voters in San Diego County for the construction of jail facilities because the tax was passed by only a simple majority vote, as opposed to a two-thirds majority vote. The court concluded the vote was invalid under Article XIII A of the state Constitution.

Decision Could Reduce Transportation Funding. The "Rider" decision could have a significant adverse impact on the level of future construction on the state highway system. Currently, 18 counties have passed 1/2 cent sales tax measures specifically to fund transportation improvements. Collectively, these tax measures will provide an estimated $8.4 billion over 20 years for improvements on the state highway system. In addition, the tax measures also provide substantial funding for local rail and mass transit improvements and local streets and roads.

At the time of the decision, three local sales tax measures were already in litigation regarding the two-thirds vote requirement. Table 6 provides a summary of these measures and the amount of funds anticipated to be generated for transportation.

Table 6

Department of Transportation
Local Transportation Sales Tax Measures
Currently in Litigation

(in millions)

		Estimated Funds		
County	Date Passed	Highways	Rail	Local Roads
Los Angeles	11/6/90	$2,000	$6,000	—
Orange	11/6/90	1,333	868	$899
Monterey	11/7/89	173	20	39

According to the State Board of Equalization, an additional 14 transportation tax measures may also be at some risk of eventually being overturned by the courts. However, no court challenges have been brought against these other measures.

Future Tax Measures Uncertain. As a result of the "Rider" decision, counties may be reluctant to place transportation sales tax measures on the ballot. Currently, six counties and the Lake Tahoe region are authorized to place such measures on future ballots. Passage of these seven measures would result in an estimated additional $1.5 billion for state highway improvements over twenty years.

Decision May Affect Transportation Programming. Because revenues from adopted local tax measures are used to partially fund projects programmed in the 1992 STIP, HSOPP, and TSM, the loss of these funds could result in an unfunded liability for the state transportation program in future years. For example, one project proposed for the 1992 STIP period is the Prunedale Bypass in Monterey County for which 50 percent of the project's cost — $112 million — is to be funded with the county's tax measure funds. If the court invalidates Monterey's sales tax, the STIP would have an unfunded liability of $112 million. In that event, the Legislature would need to determine whether this project would be fully funded — with state and federal funds substituting for the loss of local funds — or not be constructed at all.

In order for the Legislature to determine the potential level of underfunding in the state's future capital outlay program, we recommend that Caltrans report at the time of budget hearings on the amount of funding assumed in the 1992 STIP, HSOPP and TSM from local transportation tax revenues. (For further information on the Rider decision, please see our analysis of Item 0860 — the Board of Equalization.)

Implementation of 10-Year Plan

Progress in Implementing 10-Year Plan

We recommend that prior to budget hearings, the department provide the fiscal committees with an explanation of why current-year expenditures in various elements under the department's control (in particular backlogged STIP and rail projects) are estimated to fall short of proposed levels.

As part of the *Transportation Blueprint for the Twenty-First Century*, a package of legislation enacted to provide an additional $18.5 billion over 10 years, the Legislature also established a plan specifying how the additional resources are to be used for transportation. Additionally, the Legislative Analyst is required to provide a summary of the expenditures proposed for each element of the plan as part of the *Analysis*.

Table 7 compares the 10-year plan to cumulative expenditures from 1990-91 through the end of 1992-93 — the third year of the 10-year plan. The table also shows the percentage of 10-year planned expenditures proposed to be carried out by the end of 1992-93 for each expenditure element. In total, Caltrans anticipates that, through 1992-93, the state would have achieved about 21 percent of total expenditures called for in the 10-year plan.

Estimated Expenditures in Current Year Are Less Than Planned. Table 8 compares the total amount of work the department initially planned for the current year compared to the department's latest estimates on the amounts to be accomplished. The table shows that the department expects to expend significantly less in some categories than planned. For example, the department planned $1 billion in expenditures to carry-out backlogged STIP projects, but now expects to expend only $578 million. Lower than planned expenditures are also expected in rail, state-local transportation partnership, and traffic systems management programs. Some of the expenditures are beyond Caltrans' control because they depend on readiness of local projects (for instance, rail projects). In a following section of this *Analysis*, we discuss the implementation of the state-local transportation partnership, and the rail programs.

Table 7

**Department of Transportation
10-Year Plan
Expenditures by Element
1990-91 through 1992-93**

(dollars in millions)

Element	10-Year Plan	Proposed 1992-93	Total 1990-91 through 1992-93	Total As Percent of 10-Year Plan
STIP -- backlogged projects	$3,500	$374	$952	27.2%
Intercity, commuter, and urban rail	3,000	638	913	30.4
Flexible congestion relief	3,000	102	200	6.7
City/County subventions -- streets, roads, and guideways	3,000	298	723	24.1
State-Local partnership	2,000	173	400	20.0
Interregional road system	1,250	10	28	2.2
Traffic system management	1,000	69	125	12.5
Highway maintenance and rehabilitation	1,000	202	451	45.1
Transit operations and capital outlay	500	36	75	15.0
Soundwalls	150	24	64	42.7
Environmental Enhancement and Mitigation Demonstration Program	100	10	20	20.0
Totals	$18,500	$1,935	$3,951	21.4%

However, Caltrans is responsible for meeting expenditure plans of the other elements, such as completing STIP projects. Consequently, we recommend that, prior to budget hearings, the department provide the fiscal committees with an explanation for the shortfalls in each of the program areas implemented by the department.

DEPARTMENT OF TRANSPORTATION—Continued

Table 8

Department of Transportation
10-Year Plan
Comparison of Proposed and Estimated Expenditures
1991-92

(in millions)

Element	Proposed	Estimated	Difference
STIP -- backlogged projects	$1,007	$578	-$429
Intercity, commuter, and urban rail	630	275	-355
Flexible congestion relief[a]	—	98	—[b]
City/County subventions — streets, roads, and guideways	347	425	78
State-Local partnership	308	227	-81
Interregional road system[a]	—	18	—[b]
Traffic system management	91	56	-35
Highway maintenance and rehabilitation[a]	—	249	—[b]
Transit operations and capital outlay	50	39	-11
Soundwalls[a]	—	40	—[b]
Environmental Enhancement and Mitigation Demonstration Program	10	10	—

[a] Data were unavailable for these items.
[b] Not a meaningful figure.

HIGHWAY TRANSPORTATION

The department proposes $5.2 billion (83 percent of its total budget) in 1992-93 expenditures for the Highway Transportation program. This is an increase of $588 million, or 13 percent above estimated current-year expenditures. The budget proposes to increase staff for the program by 202 personnel-years (PYs).

As shown in Table 9, state funds will finance $2.3 billion (43 percent) of the total proposed expenditures, an additional $1.7 billion (32 percent) will be paid from federal funds and the remaining $1.3 billion (25 percent) will be reimbursed primarily from local (sales tax measures) and private (developer) funds.

Table 9

Department of Transportation Highway Transportation Budget Summary 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Capital outlay support	$782.7	$869.1	$856.9	-1.4%
Capital outlay projects	1,523.4	2,395.4	2,933.6	22.5
State-local transportation partnership	61.4	166.0	172.6	4.0
Local assistance	376.5	342.1	366.3	7.1
Program development	37.2	38.8	39.7	2.4
Operations	124.7	123.4	132.8	7.7
Maintenance	681.2	710.0	730.6	2.9
Totals[a]	**$3,587.2**	**$4,644.7**	**$5,232.5**	**12.7%**
State funds	*$1,727.1*	*$2,052.1*	*$2,252.7*	*9.8%*
Federal funds	*1,448.6*	*1,532.2*	*1,654.6*	*8.0*
Reimbursements	*411.5*	*1,060.4*	*1,325.1*	*25.0*

[a] Detail may not add to total due to rounding.

Highway Capital Outlay

About 60 percent of the proposed expenditures for the Highway Transportation program — $2.9 billion — will be for capital outlay projects. This is $539 million (23 percent) more than estimated current-year expenditures of $2.4 billion. As shown in Table 10, much of the increase — $399 million — is for rehabilitation and safety projects.

DEPARTMENT OF TRANSPORTATION—Continued

Table 10

Department of Transportation Highway Capital Outlay Expenditures 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Flexible congestion relief	$957	$1,490	$1,562	4.8%
Interregional road system	109	151	135	-10.6
Soundwalls	144	30	46	53.3
Other highway construction	16	59	54	-8.5
Rehabilitation and safety	286	609	1,008	65.5
Traffic systems management	8	44	111	152.3
Seismic retrofit	4	12	17	41.7
Totals[a]	$1,523	$2,395	$2,934	22.5%
State funds	*$285*	*$394*	*$571*	*45.0%*
Federal funds	*897*	*1,005*	*1,104*	*9.9*
Reimbursements	*342*	*996*	*1,260*	*26.5*

[a] Detail may not add to total due to rounding.

Budget Proposes To Delay $900 Million in Project Awards

Caltrans indicates that if all projects are designed on schedule, the construction award of $900 million in highway improvements will be deferred beyond 1992-93 because the STIP is over-programmed with projects relative to available funds. However, the deferred amount would be less to the extent more federal funds are available under the new federal act, and to the extent Caltrans does not complete project development as scheduled.

Based on the STIP schedule of project delivery, the department estimates that *if* all projects are designed on schedule, it will have a "shelf" of $900 million in projects ready for construction contract award by the end of 1992-93. As we discussed previously, the STIP is over-programmed for 1992-93 — that is, more projects are scheduled for delivery than can actually be funded with estimated available revenues. The actual amount to be delayed would be less than $900 million based on (1) the extent to which Caltrans does not complete the design of programmed projects on schedule and (2) the availability of additional (federal) revenues for the capital outlay projects.

CTC Sets Policy for Prioritizing Projects. In October 1991, the CTC adopted a formal policy for prioritizing projects when a lack of available funding exists. The CTC's policy is to continue funding for (1) all safety projects, including seismic retrofit, that reduce the number and severity of accidents on the state highway system and (2) projects funded primarily with dedicated funds that cannot be used for other projects (for example, interstate completion). Other projects will be funded on a strictly first-come basis, assuming that there are sufficient state funds available to fund the project through completion.

Reimbursements Mask Caltrans Capital Outlay Activity

Of the total $2.9 billion proposed expenditures on highway capital outlay, $1.3 billion (43 percent), will be reimbursed by local agencies — particularly from local sales tax revenues — for improvements on the state highway system. By including reimbursements as part of total capital outlay expenditures, the budget provides a more complete picture of the total capital improvements to the state highway system.

However, this also overstates Caltrans' own capital outlay activity because, under current law, Caltrans does only preliminary engineering (through the environmental clearance phase) of all state highway projects funded by local tax revenues. Detailed design and engineering are done by the local agencies' own staff or consultants. Adjusting for reimbursed expenditures, state and federally funded capital outlay expenditures undertaken by Caltrans are projected to increase by only $274 million in 1992-93, compared to a total increase of $539 million.

Budget Consistently Overestimates Capital Expenditures

Actual expenditures on highway capital improvements have consistently been lower than estimated by the department.

Although the budget projects expenditures of $2.9 billion for capital outlay projects in 1992-93, our review shows that the department has consistently been optimistic and has overestimated the level of expenditures that actually occurs. As demonstrated in Table 11, in each of the last four years for which actual expenditure information is available, Caltrans has overestimated total capital expenditure levels by at least $300 million each year. In 1990-91, expenditures were overestimated by almost $1 billion, including $534 million in locally funded expenditures and $440 million of Caltrans' expenditures.

DEPARTMENT OF TRANSPORTATION—Continued

Table 11

Department of Transportation
Highway Capital Outlay
Estimated versus Actual Expenditures
1987-88 through 1990-91

(in millions)

	1987-88	1988-89	1989-90	1990-91
State expenditures				
Estimated	$1,133	$1,562	$1,619	$2,495
Actual	916	1,275	1,472	1,181
Over-estimated	217	287	40	438
Reimbursed expenditures				
Estimated	308	267	556	876
Actual	85	227	226	342
Over-estimated	223	40	330	534
Totals, over-estimated	$440	$327	$370	$972

Expenditures have consistently been overstated because projects expected to be awarded were not designed on time. Also, the department has no control over the delivery of projects that are funded (reimbursed) by local agencies. Thus, based on past experience, it is unlikely that total capital improvement expenditures on the state highway system will be $2.4 billion in the current year and $2.9 billion as projected in 1992-93.

Seismic Retrofit Program

In this section, we examine (1) the progress of the Seismic Retrofit program and (2) the Legislature's options for financing the program both in 1992-93 and beyond.

Background. As a result of the October 1989 Loma Prieta earthquake, the Legislature established a Seismic Retrofit program. The program requires Caltrans to retrofit or replace all publicly owned bridges (including highway overpasses and other structures) to meet higher seismic safety standards enacted after the earthquake. In addition, Ch 265/90 (SB 2104, Kopp) required Caltrans to submit a multi-year plan and schedule for completion of the program.

The Legislature also directed Caltrans to make the delivery of highway bridge seismic retrofit projects its highest priority and set the following deadlines for Caltrans to complete retrofitting of bridges within each category:

- All single-column (state and local) bridges must be under construction contract by December 31, 1991 and construction must be completed by December 31, 1992.
- All multi-column (state and local) bridges, including toll bridges, must be under construction contract by December 31, 1993 and construction must be completed by December 31, 1994.

Retrofit of State Bridges Will Take Longer and Cost More

Caltrans will not meet statutory deadlines for the retrofit of state bridges. Moreover, the costs of retrofit will be significantly higher than current estimates.

After reviewing all 12,000 state highway bridges, Caltrans established as Category I bridges those that are either most vulnerable in the event of an earthquake or necessary for emergency response capability during a widespread civil disaster. At this time, Caltrans is only retrofitting Category I bridges. (Category II and III bridges will only be proposed for retrofit in the future when the investment would be "cost effective.")

Caltrans estimated that retrofit would be required for about 792 Category I bridges (excluding toll bridges) with a total estimated construction cost of about $800 million. An additional $160 million is required for design and engineering costs. Table 12 summarizes the number of bridges to be retrofitted and the estimated construction costs.

Table 12 also shows that, by the end of 1991, Caltrans had awarded contracts for 131 bridges with construction costs of $70 million. In the budget year, the department anticipates awarding $310 million in seismic capital outlay projects.

Table 12

Department of Transportation Seismic Retrofit Program Scope and Progress As of End of 1991[a]

(dollars in millions)

Bridge Type	Number of Bridges	Estimated Construction Costs	Under Contract as of 12/91
Single column	273	$130	131
Multi column	519	670	—
Toll bridges	8	—[b]	—

[a] Source: Caltrans monthly seismic report to the CTC.
[b] To be determined.

- *Single-Column Bridges.* As of the December 1991 deadline, 131 bridges (48 percent) were under construction contract. Caltrans indicated at that time, however, that most of the other bridges were at least in the advertising phase. Another 31 bridges did not yet have completed designs, mainly because of the moratorium on Caltrans' ability to hire outside consultants. This moratorium was lifted in October 1991 and the department's latest schedule indicates that all single-column bridges will be under contract in 1993-94.
- *Multi-Column Bridges.* Thus far, no contracts have been awarded for multi-column bridges. However, Caltrans indicated that by the end of 1991, design was complete on four bridges and 215 bridges were in design. All other bridges were either pending assignment to consultants for design or not yet ready for design. The department estimates that the first contract will be ready for bid by mid-1992.
- *Toll Bridges.* As of December 1991, Caltrans had not estimated either a cost or completion schedule for retrofit of the toll bridges.

Caltrans Will Not Meet the Statutory Deadlines. Our analysis indicates that Caltrans will not meet the deadline for retrofitting single-column bridges and will probably not meet the deadline for multi-column (including toll) bridges. A majority of multi-column bridges have not been assigned to consultants and do not have estimated schedules for completion. Thus, a key factor in completing the program on schedule will be Caltrans' ability to expeditiously hire outside consultants to undertake retrofit designs. The department indicates that it currently takes an average of nine months to advertise and award an engineering contract. Because 80 percent of the design work is to be done by consultants, the contracting process must be substantially accelerated if the department is to meet the deadline.

Cost of Retrofitting State Bridges Will Be Higher. Currently, Caltrans has not estimated a cost for retrofitting the eight Category I toll bridges. However, our analysis shows that the cost of retrofitting toll bridges could add several hundred million dollars to the overall cost of the program. As an example of the potential cost, a recent study of the Golden Gate Bridge indicated that retrofit of that structure alone would cost $128 million and take five years for completion. Caltrans is currently undertaking a study of the San Francisco-Oakland Bay Bridge, which will then be used as a basis for estimating costs and schedules for the other toll bridges.

Retrofit of Local Bridges Will Also Cost More

The state's cost to retrofit local bridges will be higher as a result of higher cost estimates and certain local costs being reimbursed by the state.

In addition to retrofitting highway bridges, Caltrans is required to be the lead agency for the retrofit of all local bridges except for those in Los Angeles and Santa Clara Counties. Caltrans has identified 5,200 local bridges that require detailed engineering review. This review has not yet been completed. As of December 1991, Caltrans had identified 166 local bridges as Category I bridges, with estimated construction costs of $108 million. However, the final number of bridges and total cost for the program is not yet known. In addition, Los Angeles and Santa Clara Counties have identified a total of 31 bridges with estimated construction costs of $32 million.

By the end of 1991, Caltrans had two local bridges under construction, 75 bridges under design, and 89 bridges not yet in design. Agreement had also been reached with Santa Clara on its bridge program, but not with Los Angeles. The department indicates that a problem in completing the local program is local agencies' unwillingness to enter into agreements with Caltrans for program implementation. Local agencies often cite a lack of funds as their reason for not participating in the program.

Program Could Increase State Costs Significantly. Caltrans initially estimated a need of about $70 million in state (and federal) funds to retrofit local bridges, with local agencies paying the remaining costs, estimated at $30 million. Based on the latest data, the cost to retrofit local bridges will total at least $140 million. It is not clear how the additional costs will be shared using state and local funds.

In addition, the Commission on State Mandates recently ruled that the local seismic retrofit requirement constitutes a reimbursable state mandate. By requiring state reimbursements, the decision will increase the state's cost to complete the program. However, the decision may also increase local agencies' willingness to work with Caltrans, if funding is no longer a local concern.

Seismic Safety Retrofit Account Depleted In Budget Year

The Seismic Safety Retrofit Account (SSRA) will be depleted in the budget year. In accordance with current law, the budget proposes a transfer of $8 million from the State Highway Account to pay for seismic retrofit costs.

To fund the state seismic program, the budget proposes expenditures of $17 million from the SSRA. The department indicates that this amount — along with expected federal matching funds of about $142 million — would be adequate to pay for expected project costs in the budget year. In addition, the budget proposes to spend another $10 million from the SSRA on local projects. Thus, a total of $27 million will be expended from the SSRA on seismic retrofit activities in 1992-93.

Budget Proposes Transfer to the General Fund. The budget also proposes to transfer the interest accrued in the SSRA in the current and budget years — totaling $16 million — to the General Fund. However, this will leave insufficient funds in the SSRA for seismic retrofit work in 1992-93. In accordance with Ch 1083/90 (SB 1742, Leroy Greene), the budget proposes to transfer $8 million from the State Highway Account to the SSRA to pay seismic retrofit expenditures in the budget year.

SHA Transfers Will Be Required in Future Years. Because SSRA funds will be depleted in the budget year, a significant transfer of several million dollars from the SHA funds in 1993-94 and annually thereafter will be needed to finance the remaining seismic retrofit costs. Additionally, because the state has to reimburse local governments for their seismic retrofit programs, as discussed above, the SHA transfer will be higher in future years.

Seismic Retrofit Projects Displace Other Highway Projects

We identify several options which the Legislature may consider to fund projects displaced by the seismic retrofit program.

The use of SHA and federal funds to pay for the Seismic Retrofit program will displace other projects programmed in the STIP and HSOPP. For example, the 1992 HSOPP proposes to set aside $564 million for seismic projects in 1992-93 and 1993-94. The effect of this reservation is to push non-seismic capital projects to future years and to reduce the funds available for future projects. In reviewing the 1992-93 budget, the Legislature will need to consider whether to provide new resources to accomplish this work or continue to displace capital projects. To assist the Legislature in making this decision, we have outlined five options below:

- *Reserve Unprogrammed Federal Funds for Seismic Retrofit.* The Legislature could direct the CTC to reserve for seismic retrofit a portion of the additional federal funds Caltrans expects to receive from the new federal transportation act. Currently, these funds have not been programmed. As noted in a previous section of this *Analysis*, the new act could generate up to $300 million more a year (on an annualized basis) than previously anticipated. A significant share of these funds could be used for seismic repair if the state provides a match of between 10 percent and 20 percent, depending on the project. Assuming that enough federal funds could be reserved to complete all Category I projects, total cost of the state match would range between $56 million and $113 million.

- ***Reduce the Impact of Displacement.*** This can be achieved through one or a combination of the following: (1) reduce expenditures in highway operations and maintenance, administration and planning, (2) retain $16 million in accumulated interest in the SSRA and not transfer it to the General Fund, and (3) extend the seismic program by one or more years, spreading the costs over several years, thereby reducing the amount of projects displaced in any given year.
- ***Issue Medium-Term Notes.*** State law requires the CTC to report to the Legislature by April 1 on whether it is cost-effective to issue medium-term (up to five years) notes or certificates to fund projects displaced by the seismic retrofit program. If CTC determines that issuing short-term notes is cost-effective, the Legislature will then need to decide whether to grant authority through the Budget Act to issue notes or certificates.
- ***Accelerate Gas Tax Collections.*** Proposition 111 approved by voters in 1990 authorized an increase in the motor vehicle fuel tax of five cents on August 1, 1990, and 1 cent each January 1, until a total tax of 18 cents per gallon is reached on January 1, 1994. Accelerating the tax increases could raise a total of between $50 million and $260 million on a one-time basis, depending on how the schedule is reconfigured.
- ***Motor Vehicle Fuel Surcharge.*** Each one cent increase in the motor vehicle fuel tax produces about $150 million in annual revenue.

Capital Outlay Support

The budget proposes expenditures of about $857 million for capital outlay support in 1992-93. This is a decrease of about $12 million (1 percent) over estimated current-year expenditures. This expenditure level will support a total of 10,640 personnel-year equivalents (PYEs) of work — a decrease of 42 PYEs from the amount estimated in the current year.

Table 13 summarizes the overall staff resources for project development — including both regular and temporary departmental staff, as well as consultants, student assistants, and cash overtime — proposed in 1992-93 as compared with 1991-92. It also summarizes Caltrans' planned allocation of staff resources by type of work.

As indicated in Table 13, the budget request will provide basically the same level of capital outlay support staff as in the current year. The department reports that this is a result of the mix and schedule of the various programmed projects. However, in some areas, the department has not increased resources for policy reasons. For example, staff levels for tax measure and other locally funded projects are projected to remain constant in 1992-93 because of a department policy not to increase resources for non-state-funded workload.

Table 13

Department of Transportation
Capital Outlay Support
1991-92 and 1992-93

(Personnel-Year Equivalents)

	1991-92 Estimated	1992-93 Proposed	Proposed Change
Sources:			
State staff	8,843	8,823	-20
Cash overtime	379	379	—
Student assistants	155	155	—
Engineering contracts	1,305	1,283	-22
Totals	**10,682**	**10,640**	**-42**
Uses:			
Basic program	6,735	6,747	12
Pre-STIP	419	419	—
Seismic retrofit	465	507	42
Earthquake repair/restoration	221	145	-76
Regional Measure 1 (Bay Area toll bridges)	111	91	-20
Local tax measure projects	1,794	1,794	—
Other locally/privately funded projects	586	586	—
Administrative pro rata	351	351	—
Totals	**10,682**	**10,640**	**-42**

What is the Appropriate Level of Project Development Activity?

Based on its priorities, the Legislature may want to reduce the level of project development activity in order to fund construction of additional projects.

The department's support request will enable it to continue to deliver projects — that is, get projects design-ready — as programmed in the STIP. Our review shows that, if all projects are delivered on schedule, there would be as much as $1.2 billion in design-ready projects by the end of 1992-93. (The $1.2 billion in projects would include the $900 million — discussed earlier — that will not be awarded for construction in 1992-93, and an additional $300 million in projects that will be design-ready, but will not be ready for award.) Caltrans' decision to maintain resources for project design and engineering on STIP projects at current levels is based on the assumption that additional revenues will be available in the future to fund construction of these projects.

As we indicated earlier, the reason there will not be sufficient funds to award all projects programmed in the STIP for delivery in 1992-93 is because of the way STIP projects are programmed. In fact, when the CTC adopted the 1990 STIP, it was clear that more projects were scheduled to be constructed in 1992-93 than there would be available funds.

The Legislature will need to decide whether to continue the existing level of project development while deferring project construction, or whether to increase project construction at the expense of fewer design and engineering activities for future projects. If the Legislature decides to provide additional revenue to fund the capital outlay program — for example, by accelerating collection of gas tax revenues — then development work on the projects must be continued. In fact, failure to have shelf projects ready for construction would risk potential delays in utilizing the new revenues to provide highway improvements.

If, however, the Legislature determines that new revenues are not likely, then the level of project development effort proposed in the budget would not be justified and resources should be reduced or redirected to other priority activities.

Locally Funded Workload Could Be Lower

We recommend the adoption of Budget Bill language providing for the reversion of funds designated for local tax measure projects if the measures are invalidated by the courts.

Our review of the department's capital outlay support request shows that, while much of the planned workload is relatively certain, some uncertainties exist in the Seismic Retrofit program. In addition, workload for local tax measure projects may be adversely affected by the recent Supreme Court "Rider" decision, as discussed earlier.

Basic Program Is Reasonably Certain. The department's estimates of staff resources required to carry out the basic program were based on the schedules adopted and subsequently updated for the 1990 STIP, HSOPP, and TSM. The workload is reasonably well-defined, and resources to accomplish this workload are estimated based on historical requirements to carry out this work. As discussed previously, the workload might change if the Legislature chooses to defer project development work in order to reduce the amount of projects that cannot be funded in the budget year.

Seismic Retrofit Resources Reasonable. The workload related to bridge seismic retrofit is less well-defined. The department has, for the most part, established schedules for retrofitting single-column bridges. However, many of the schedules for the multi-column bridges have not yet been established because final retrofit strategies have not been determined. To the extent that the lack of retrofit strategies means that projects are not ready to be designed, the department's estimate of 507 PYEs of staff resources may be overstated. Nevertheless, given the high priority the Legislature has given to this program, we believe that the level of resources requested is reasonable.

Tax Measure Workload Uncertain. The department requests 1,794 PYEs of staff resources to work on local sales tax measure projects. This staffing level is based on project schedules and agreements with local agencies. However, the Supreme Court's recent decision has led to uncertainty in the availability of local sales tax revenues for transportation, particularly in Los Angeles, Orange, and Monterey Counties where the local tax measures were already in litigation. Caltrans has budgeted 244 PYEs and about $22 million for projects funded by these three tax measures.

Until local tax measures are actually invalidated by the courts, it is reasonable for the department to continue its work on tax measure projects. However, should any of the measures be invalidated by the courts during the budget year, these support resources should be deleted. Consequently, we recommend adoption of the following Budget Bill language:

> In the event that a previously enacted sales tax measure is invalidated by the courts, the funds and personnel-years designated for work on projects from that sales tax measure shall be administratively deleted from the approved 1992-93 budget.

Department Moving Ahead With Contracting Program

In October 1991, Caltrans settled a court case that had limited the department's ability over the last few years to contract with the private sector for engineering work. The agreement allows Caltrans to move ahead with its contracting program. The department estimates that it will encumber $183 million allocated for contracts in the current year.

The department is requesting $175.5 million for contracting for project delivery in 1992-93, a decrease of $7.5 million over estimated current-year expenditures. The department indicates that because overall project delivery staffing levels are expected to decline because of reduced workload, it does not need to increase the level of contracting resources. Any increase in contracting resources in the future will depend on the availability of additional capital outlay funds.

Analyst's Assessment of Project Delivery Performance in 1990-91

Delivery of highway capital outlay projects in 1990-91 was short of the department's goal by about $500 million, or 28 percent. Compared to 1989-90, total project delivery has improved.

Chapter 24, Statutes of 1988 (SB 140, Deddeh), requires that the Legislative Analyst include, annually in the *Analysis*, an assessment of the department's progress in delivering projects as scheduled in the STIP. This section provides our assessment of the department's delivery of projects as scheduled in the STIP for 1990-91. It should be noted that legislation in 1989 redefined the STIP and created two new programs: the Highway System Operation and Protection Plan (HSOPP) and the Traffic Systems Management (TSM) plan. Our review covers delivery of all three programs. Project delivery is defined in statute as occurring when a project is advertised.

Caltrans Delivered Only Two-Thirds of 1990-91 STIP Projects. In total, the 1990 STIP scheduled 435 major projects (projects with costs of over $250,000) with a value of $1.3 billion to be delivered in 1990-91. Our review shows that the department delivered 296 (68 percent) of these projects worth about $865 million (67 percent).

The department has identified both internal and external reasons why it was unable to deliver projects according to STIP schedules. Internal reasons include over-optimistic scheduling of STIP projects and redirection of staff resources to work on high priority projects, particularly seismic retrofit projects. External reasons include delays due to local or regulatory agency concerns, such as local requests for added project features, and unforeseen additional environmental work. These same problems have been cited in the past and it is not clear why some of them continue to exist. For example, the department does not indicate which of the additional local or regulatory concerns should have been anticipated earlier in the project development process. In addition, because Caltrans requests resources based on its own project schedules, it is not clear why support resources would subsequently need to be redirected for projects not specifically resulting from the Loma Prieta earthquake.

Total Project Delivery in 1990-91 Was Higher, but Still Short of the Department's Goal by $500 Million. In addition to delivering 1990 STIP projects that were scheduled for 1990-91, the department also planned to deliver in 1990-91 projects backlogged from previous years, projects moved forward from future years, and new projects amended into the STIP. In total, the department planned to deliver 529 projects worth $1.8 billion. However, our review shows that Caltrans actually delivered 410 projects worth about $1.3 billion — about $500 million (28 percent) less than planned.

Compared to 1989-90, Total Project Delivery Has Improved. Although Caltrans' 1990-91 project delivery was short of its goals, the total number and value of projects delivered was significantly higher than 1989-90. As indicated in Table 14, the total number of delivered projects increased by 195, or 91 percent. The total value of projects delivered increased by $313 million, or 32 percent.

DEPARTMENT OF TRANSPORTATION—Continued

Table 14

Department of Transportation Project Delivery 1989-90 versus 1990-91

(dollars in millions)

	1989-90[a]	1990-91	Percent Change
Number of STIP year projects	118	296	151%
Dollar value	$343	$865	152
Number of total projects	215	410	91
Dollar value	$987[a]	$1,300	32

[a] The department also delivered about $100 million in earthquake-related projects which were not part of the capital outlay plan.

Project Development Costs

Caltrans' project development costs may have exceeded the legislative limit of 20 percent in 1990-91.

Chapter 105, Statutes of 1989 (SB 300, Kopp), requires Caltrans to keep its project development costs (the costs of engineering and designing highway projects) from exceeding 20 percent of the value of projects awarded in a year. Chapter 105, as amended, also requires the department to report by January 15 on its project development costs in the preceding year and the Legislative Analyst to assess in the *Analysis* the extent to which the department's project development costs meet the 20 percent standard.

The department indicates that the costs of project development in 1990-91 were about 17 percent of the value of projects awarded in that year.

Costs of Project Development May Be Understated. In order to assess the department's project development costs, we examined corresponding productivity in terms of capital outlay expenditures. The department's estimate of 17 percent means that, on the average, $1 was expended in project development in order to get about $6 worth of project ready for construction. However, a review of the last three years for which actual expenditure data are available does not show a similar level of productivity and indicate that Caltrans may have exceeded the legislative standard of 20 percent.

For instance, for the fiscal years 1988-89 through 1990-91, Caltrans' capital outlay support costs, excluding administrative overhead, totaled $1.9 billion. Allowing for staff support for performing project study reports (pre-STIP) and for construction oversight, and assuming a 20 percent project development to project value ratio, capital outlay expenditures over the same period should have totaled $5.7 billion. However, actual expenditures totaled only $4.7 billion. (This implies a ratio of about 24 percent.) Moreover, this level of capital outlay expenditures includes about $780 million in reimbursements, even though the department is responsible for only a small portion of the project development costs for these projects.

We will continue to work with the department to evaluate the true costs of project development and will inform the Legislature, as appropriate, of our findings.

State-Local Transportation Partnership Program

No New Funds Proposed for Program

The budget proposes no new funding for the State-Local Transportation Partnership Program which provides state matching grants for local transportation improvement projects. As a result, a number of these projects will be delayed. We identify two options which the Legislature should consider to minimize the impact on local projects.

Chapter 105, Statutes of 1989 (SB 300, Kopp), as subsequently amended, expressed legislative intent to appropriate $250 million for the State-Local Transportation Partnership (SLTP) program in 1991-92 and $200 million annually thereafter. Chapter 105 also provided $2 billion for the program over the ten-year period from 1990-91 through 1999-2000. The program's intent is to provide up to 50 percent in state matching grants for locally funded projects in order to leverage local funds for transportation improvements. In addition, Chapter 105 specifies how the state match ratio is to be determined annually, and the timeframe under which construction contracts for a project must be awarded in order to receive state funds.

Table 15 shows the amounts appropriated and expended for the program since 1990-91. For the budget year, the budget is proposing that no additional funds be appropriated. Instead, the budget proposes that unexpended funds not needed for existing projects be reappropriated in order to fund projects in the 1992-93 program cycle.

Actual Expenditures Have Been Less Than Anticipated. Our review shows that 1990-91 expenditures were far below the appropriated amount for three reasons. First, about $54 million in projects failed to meet the statutory schedule in order to receive funds. Second, projects that were awarded had significantly lower bid costs than estimated. As a result, the state's share of costs for these projects was about $42 million lower. Third, projects have three years to expend the state matching funds. Thus, 1990-91 projects have until 1992-93 to fully expend the state funds.

DEPARTMENT OF TRANSPORTATION—Continued

Table 15

Department of Transportation
State-Local Transportation Partnership Program
Appropriations and Expenditures
1990-91 through 1992-93

(in millions)

	Actual 1990-91	Estimated 1991-92	Projected 1992-93
Amount appropriated	$250.0	$200.0	—
Amount reappropriated	—	188.6	$222.6
Totals, available	**$250.0**	**$388.6**	**$222.6**
Amount expended	61.4	166.0	172.6
Amount unexpended	$188.6	$222.6	$50.0

For the current year, grant applications total about $986 million. Based on past project delivery, the department estimates that total current-year expenditures for both 1990-91 and 1991-92 projects would be about $166 million. The budget proposes to reappropriate the unexpended funds — about $223 million — for use in 1992-93. Of this amount, the department projects that about half ($112 million) will be available for new projects in the budget year.

Significantly Less Funds for 1992-93 Projects. For 1992-93, the department has received about 1,030 project applications, totaling $2.4 billion in estimated costs. Of these, about 110 projects with estimated costs of $1.3 billion, are for improvements to the state highway system.

At a funding level of $112 million, the state match ratio for 1992-93 projects would be about 4.7 percent (compared to 8 percent if the funding is at the intended level of $200 million). At this ratio, it is likely that a large number of projects would withdraw from the 1992-93 program, and reapply for 1993-94 funding. Consequently, a lack or drop in funding for the SLTP program will result in delays in some locally funded projects, even if they are ready for construction. In some cases, local governments might be able to substitute their own funds (from other projects) in order to proceed with the planned project. This would reduce local funds available for future projects. For local governments which do not have a substitute funding source, projects would have to be dropped or delayed.

Options for the Legislature. Because state funds provided under the SLTP program leverage significant amounts of local funds for transportation improvements, a drop in the state's funding for this program would adversely affect project progress. If the Legislature wishes to ensure that locally sponsored transportation projects can progress in 1992-93, the Legislature should consider the following options:

- Appropriate an additional $90 million in 1992-93 to provide a total program funding level of $200 million (including funds carried over from previous years) for 1992-93 projects, as intended. This would require the Legislature to reduce SHA expenditures in other activities.
- Enact legislation to provide any unfunded state match (at a ratio based on a $200 million funding level) at a later date while allowing local projects to use their own funds (including borrowed funds) to construct projects. This would assure projects of the availability of state funds as local governments put together a funding plan for their projects.

MASS TRANSPORTATION

For 1992-93, the Mass Transportation program will account for approximately 16 percent of the department's total expenditures. The budget proposes $1 billion in program expenditures in 1992-93, which is $534 million, or 108 percent, above estimated expenditures for 1991-92. The increase is mainly for rail capital improvements.

Table 16 summarizes the Mass Transportation expenditures by program elements. As shown in Table 16, the largest elements of the program are the rail transit capital and the interregional public transportation elements.

Table 16

Department of Transportation
Mass Transportation Expenditures
1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
State and federal mass transit	$1.0	$1.3	$17.1[a]	1,215.3%
Rail transit capital	66.6	339.4	670.5	97.6
Interregional public transportation	93.4	100.6	285.9	184.0
Transfer facilities & services	3.4	3.8	3.8	—
Research	0.4	0.6	0.6	—
Work for others	—	2.1	1.5	-29.5
Rideshare	32.1	45.0	47.4	5.3
Totals	**$196.9**	**$492.8**	**$1,026.8**	**108.3%**

[a] The increase over 1991-92 estimated level is the result of a change in budget display.

Significant State Mass Transportation Expenditures Proposed. For 1992-93, total state expenditures for mass transportation activities will be significantly higher than reflected in Table 16. This is because the budget also anticipates spending about $367 million in Proposition 116 bond funds for rail improvements. (These expenditures are reflected under the CTC's budget — Item 2600.) In addition, the state also provides assistance to local transit operators through the State Transportation Assistance (STA) program (Item 2640). The budget proposes an STA funding level of $55 million, about the same level as the current year.

Rail Program

Better Coordination Will Improve Implementation of Rail Programs

We recommend adoption of supplemental report language directing the California Transportation Commission and Caltrans to jointly develop a common database for the implementation of the rail programs under Propositions 108 and 116 in order to improve the coordination of the two programs.

Currently, the CTC administers the Proposition 116 program, while the Proposition 108 rail program is the joint responsibility of the CTC and Caltrans. Projects eligible for Proposition 108 funding are programmed in the STIP, but Proposition 116 projects are not. Proposition 116 rail project applications are reviewed first by private consultants under contract to the commission. After CTC approval, Caltrans then reviews the project in greater detail when a request for fund allocation is made. Caltrans also oversees project progress.

Better Coordination Could Speed Up Project Review. Our review shows that the process for reviewing Proposition 116 projects could be improved. For instance, when Caltrans receives an allocation request for Proposition 116 funds, it must spend staff time to learn about the project. This duplicates some of the efforts by CTC's consultants. If one agency reviewed both the initial project application and the subsequent fund allocation request, the review process could be shortened. Alternatively, both agencies could share a common database of project information to minimize duplication.

Application Time Could Be Shortened for Local Agencies. A common database that includes information on Proposition 108 and Proposition 116 projects would streamline the fund application process for local agencies. Currently, project information and documentation required for Proposition 108 funds differ from those required for Proposition 116. Because local agencies often use both Propositions 108 and 116 money for the same project, local agencies must submit separate and different applications for each. This increases both local and state application review time and expenses. Consequently, we believe the use of a comprehensive common database for rail projects could reduce the paper work currently required of local agencies and review time by state personnel.

Accordingly, we recommend the adoption of the following supplemental report language:

> Caltrans and the CTC shall jointly develop a comprehensive rail project database for the implementation of Propositions 108 and 116 programs.

Rail Program Slow to Use Bond Funds

Based on the rate of use of Proposition 108 funds, additional bond funds (beyond the $1 billion from Proposition 108) will not be needed until at least 1993-94.

The 1990 STIP has fully programmed the $1 billion in Proposition 108 money through 1992-93. In addition, in early 1991, the CTC compiled a list of projects, totaling about $1.2 billion, which would require Proposition 108 or 116 bond funds through the current year.

Our review shows that the use of bond funds through 1991-92 will be much less than originally estimated. Table 17 shows the amount of Proposition 108 and Proposition 116 funds expended in 1990-91 and the amount recently estimated by the CTC for the current year. As Table 17 indicates, total bond fund expenditures through 1991-92 will be lower than originally anticipated — only $420 million instead of the $1.2 billion previously estimated by the CTC. Moreover, only $166 million in Proposition 108 funds will be expended through the current year.

Table 17

Propositions 108 and 116 Programs Expenditures of Bond Funds 1990-91 through 1992-93

(in millions)

Expenditures	Actual 1990-91	Estimated[a] 1991-92	Proposed[a] 1992-93	Total
Proposition 108	$43.1	$122.9	$637.5	$803.5
Proposition 116	0.1	253.9	366.0	620.0
Totals	**$43.2**	**$376.8**	**$1,003.5**	**$1,423.5**

[a] January 1992 estimates by CTC.

While the budget proposes significant increases in Proposition 108 expenditures in 1992-93, given the rate of use of Proposition 108 bond funds to date, additional bond funds will not be needed until at least 1993-94.

Transfer of Funds Could Be Faster

We recommend Caltrans report to the Legislature prior to budget hearings on (1) alternatives to expedite the transfer of bond funds to local agencies, including the feasibility of electronic transfer and the need to pre-audit all claims and (2) how the alternatives would affect Caltrans' staffing needs.

Currently, when local agencies claim reimbursements from bond funds for rail projects, the department pre-audits all claims before payments are made. Claims are then sent for payment through the Controller's office.

Local agencies have indicated that, in practice, it often takes six weeks for receipt of payment after a claim is filed. This lengthy process creates a cash flow problem for some local agencies that rely on prompt reimbursements to pay other expenses. Additionally, this process delays the use of bond funds.

Our review shows that there are several alternatives to reduce claim processing time and expedite reimbursements to local agencies. For instance, the federal government pays out capital grant funds to local agencies by means of electronic fund transfers. Local agencies can request funding once they know when bills are due. Federal funds are then transferred to cover these payments. In addition, the federal government does not pre-audit local claims. Instead, it post-audits claims on a selective basis *after* payments are made. This reduces the time needed to process claims for payments. By contrast, Caltrans pre-audits all billings which currently may take up to 20 days each.

In order to identify the most expeditious way of providing bond funds to local rail projects, we recommend that Caltrans report prior to budget hearings on the alternatives to expedite transfer of bond funds to local agencies, including the feasibility of electronic transfer and the need to pre-audit all claims. The department should also report on the potential impact of those alternatives on its staffing needs.

ASSESSMENT OF PROPOSED PROGRAM CHANGES

In addition to increases in baseline funding for various activities, Caltrans is also requesting an increase of $68 million and 270 PYs for program changes. Of the $68 million, approximately $14 million is for one-time costs.

Our review shows that, for some of the requests, the department failed to identify and analyze reasonable, cost-effective alternatives. In particular, the requests which we identify in this section do not consider ways to increase departmental productivity which we believe is particularly important given the intense demands for limited state resources. One of the common shortcomings is the department's exclusive reliance on workload models that depend on previous years' data. Such models are apt to: (1) build previous years' inefficiencies into budget-year requests and (2) estimate resource needs without adjusting for ways to meet increased workload through more efficient use of existing staff and equipment. Consequently, we have recommended deletions or reductions for proposals that do not identify reasonable alternative strategies and, in our review, are analytically not justified.

We have divided our recommendations on the department's proposed program changes into the areas of (1) maintenance, (2) operations, (3) administration, and (4) mass transportation. Rather than provide exhaustive detail on each recommendation, we have instead concentrated on the most significant concerns with each request. We have not included information on program changes that appear reasonable and for which we recommend approval.

Maintenance: Graffiti Removal

Recommend reduction of graffiti removal by $4.3 million and 61 personnel-years. (Reduce Item 2660-001-042 by $4.3 million.)

Request: Additional $5.6 million and 61 PYs to prevent and remove graffiti from highway signs and soundwalls.

Analyst's Findings: We agree that graffiti is a chronic problem, but in our view, the portion of this proposal that adds additional state workers and equipment is not an efficient use of scarce state resources. Specifically, we do not believe it is cost-effective to hire about 42 maintenance workers (at an average salary and benefit cost of $33,600 per year) and to purchase nearly $1 million in equipment in order to clean graffiti off walls and signs, with another 19 administrative and support staff to oversee the activities. Consequently, we recommend deletion of $4.3 million and 61 PYs for graffiti removal.

However, because we think the following are cost-effective and would help prevent reoccurrence of graffiti, we recommend approval of the department's request to contract with the California Conservation Corps for $1.2 million to remove and paint anti-graffiti coatings on signs, soundwalls, and other surfaces and $100,000 to place razor wire around overhead signs.

Maintenance: Inventory Increase

Recommend reduction of funding for maintenance inventory by $3.8 million and 67 PYs. (Reduce Item 2660-001-042 by $3.8 million.)

Request: $6.6 million and 82.8 PYs in order to accommodate work related to an increase in highway inventory.

Analyst's Findings: The department's request for $2.1 million to add 51 PYs to the state workforce to landscape road sides is based on historic workloads that do not consider less costly alternatives such as contracting the work. In addition, the department has not sufficiently justified why it needs $1.1 million in additional fleet equipment and $600,000 for 16 administrative and support staff PYs. Consequently, we recommend reduction of $3.8 million and 67 PYs from the request for maintenance inventory additions.

Operations: Encroachment Permits

Recommend deletion of $975,000 and 15.2 PYs for issuing encroachment permits. (Reduce Item 2660-001-042 by $975,000.)

Request: $975,000 and 15.2 PYs to increase staff for encroachment permits.

Analyst's Findings: The department has requested support increases for permits every year since 1987-88, resulting in a cumulative increase of 40 PYs for staff and $1 million in computer equipment to automate its permits functions. For 1990-91, the latest year for which data are available, the cost of administering the encroachment permits program was $13.8 million. These increases are likely to continue in future years.

In last year's *Analysis,* we pointed out that the department has the authority to charge fees to cover its costs to administer the encroachment permits program. However, the program is far from self-financing. For 1990-91, only $4 million in revenue was collected, leaving a shortfall of $9.8 million which had to be covered by SHA funds.

Our review shows that the department has neither raised fees to cover additional costs, nor made changes in its internal procedures and workload distribution to streamline permit workload so that additional fee increases or staff would not be necessary. In its request for additional staff, however, the department did not examine any workable alternatives that might resolve the chronic workload problem which the Legislature has been asked to finance every year. Consequently, we recommend deletion of $975,000 and 15.2 PYs for the encroachment permit program.

Operations: Congestion Relief Strategies

Recommend reduction in funding for congestion relief strategies by $1,566,000 and 24.6 PYs. Withhold on $10.2 million and 11.4 PYs for freeway service patrols pending receipt of additional information. (Reduce Item 2660-001-042 by $1,566,000.)

Request: $15.3 million and 66.5 PYs to pursue new and ongoing strategies to reduce congestion delay on state highways.

Analyst's Findings: We recommend a deletion of (1) 14 PYs and $688,000 for additional staffing of traffic operation centers (TOCs) and (2) 10.6 PYs and $682,000 for additional staff to monitor high occupancy vehicle (HOV) lanes. Many of the responsibilities for TOC and HOV program staff, such as responding to citizen inquiries, do not increase at a direct rate based on mileage added to the system. Nevertheless, Caltrans continues to base its staffing requests on mileage added. For example, despite a current staffing level of 60 PYs, the department continues to request one PY for every 20 lane-miles added to the TOC system. Because the department has not demonstrated why present staffing levels are inadequate to handle the marginal increases in both the TOC and HOV programs, we recommend deletion of the request.

In addition, we recommend deletion of $196,000 for pick-up trucks and changeable message signs for night maintenance crews, as this equipment already is available for day maintenance.

We also withhold recommendation on the request for 11.4 PYs and $10.2 million for freeway service patrols, because Caltrans has not provided information to the Legislature justifying the program. In the current year, Caltrans, the California Highway Patrol and the Los Angeles County Transportation Commission entered into a joint program to provide freeway service patrols on 200 miles of state freeway. In a letter to the Legislature, Caltrans indicated that it would collect and analyze data from the program to determine whether to continue the project on a permanent basis. The department now indicates that this data will not be available until March. In addition, Caltrans has not been able to justify, on a workload basis, the need to have one tow truck for each 2.3 centerline miles of freeway. Consequently, we withhold recommendation on the entire freeway service patrol request pending receipt of further information.

Administration: Recruitment Incentives

Recommend reduction in funding for recruitment incentive program by $1 million and 1.4 PYs. (Reduce Item 2660-001-042 by $1 million.)

Request: $2.4 million and 2.4 PYs to implement various engineering recruitment and incentive programs authorized under Ch 305/91 (AB 915, Eaves).

Analyst's Findings: While much of the request appears reasonable, we recommend deletion of $1 million requested for a program to hire new engineers at above entry-level salaries and to raise existing staff salaries to a comparable level. In our view, Caltrans does not need to offer above entry-level salaries in the budget year in order to recruit new staff because it does not appear to have a problem hiring new engineers, particularly given current economic conditions.

According to Chapter 305, the payment of higher salaries for new engineers is an optional program to be used at the Director of Transportation's discretion. The legislation requires that if such recruitment incentives are offered, all staff salaries for similar categories must also be increased. While the department indicates that it may need to hire up to 1,400 engineers (all levels) and related classes in the budget year, this level of recruitment is not unprecedented. In 1990-91, the department hired 1,585 new engineers and related classes. Not all of these were entry-level engineers. In the current year, 495 new engineers had been hired through December. The current economy should continue to facilitate Caltrans' ability to hire new engineers. Thus, we see no reason why Caltrans should implement this program in 1992-93.

Administration: Geographic Information System

Recommend deletion of $1.1 million and 6.2 PYs for implementation of Geographic Information System. (Reduce Item 2660-001-042 by $1.1 million.)

Request: $1.1 million and 6.2 PYs for phase one implementation of a department-wide geographic information system (GIS) — a map-based data storage and manipulation system.

Analyst's Findings: The department requests acquisition of GIS to provide geographical data in a timely and efficient manner. The total implementation cost is estimated at $11 million over several years. While GIS may have the potential for improving the department's project delivery process, we are concerned about Caltrans' ability to implement a new computer system of this magnitude. In the past, the department has consistently failed to acquire new computer systems on time or within budget. For example, the total cost for the department's computer aided design and drafting (CADD) program has increased from the original estimate of $52 million to a total cost currently exceeding $130 million. In addition, the life-cycle cost of the department's accounting automation project has grown from $3.4 million in 1986 to an estimated $8.8 million in the current year. Caltrans still has not completed these projects and is requesting funding for both CADD and accounting automation in the budget year.

The GIS is a complex technology that may require even greater coordination than other systems that Caltrans has acquired. To implement GIS effectively, we believe the department needs the following capabilities: (1) a strong department-wide commitment to the program that can overcome both functional divisions (for example, between planning/management and project development functions) and departmental decentralization; (2) an effective training program that will ensure that GIS is utilized productively once it is implemented; and (3) a plan for data development that will ensure that the information necessary to make the program successful will be available. We see no evidence that the department has taken these necessary steps to implement GIS effectively at this time. For example, the feasibility study report for the project makes only minor references to these issues and provides no assurance these conditions will exist for project success. We consequently recommend deletion.

Mass Transportation: Vanpool Loans

Recommend deletion of $2.5 million to establish a revolving fund for the purchase of vans by state departments. (Reduce Item 2660-001-853 by $2.5 million.)

Request: $2.5 million in Petroleum Violation Escrow Account (PVEA) funds to establish a van acquisition revolving loan fund, administered by Caltrans.

Analyst's Findings: The department contends that the long lead time (up to 30 months) required to purchase a van discourages van pool use by state employees in various state agencies. One of the major problems with van purchase by state departments is a lack of coordination between them and the Department of General Services and timing of the requests to coincide with manufacturer production cycles. The request does not solve this problem. In addition, Caltrans does not know at this time which departments need vans and whether they have budgeted adequate funds to reimburse the revolving fund. Finally, the proposal lacks criteria for allocating the funds among competing departments and other key administrative details. Consequently, we recommend deletion of $2.5 million in PVEA funds to establish a separate revolving fund for the purchase of vans by state departments.

Mass Transportation: Rail Project Monitoring

Recommend reduction of 7.6 PYs and $489,000 from the TP and D Account for rail project review and monitoring. (Reduce Item 2660-001-046 by $489,000.)

Request: $489,000 and 7.6 PYs to perform quarterly reviews of rail projects receiving bond funds.

Analyst's Findings: The department's request is not justified on a workload basis. The request assumes 209 rail projects subject to quarterly reviews and semi-annual site visits in 1992-93. This number of projects is derived by assuming a $5 million average project cost for $1.75 billion in bond funded projects in 1991-92 and the budget year. Our review shows this methodology is flawed. For instance, in the current year, only 34 projects have been funded to date. Based on the amount of bond funds allocated to date and the average costs of projects (some in tens and hundreds of millions of dollars), the department's workload estimate is overstated. In addition, the department assumes four quarterly meetings on all projects, including right-of-way acquisition projects. This is unreasonable particularly because bond funds for right-of-way purchase must be expended within six months after bonds are issued — at which time the project is complete. We question the need to monitor these projects with four quarterly reviews and two semi-annual site visits. Until the department can better identify its workload, we recommend the request be rejected.

Capital Outlay — Lands and Buildings

The Governor's Budget proposes an appropriation of $536,000 in Item 2660 for capital outlay expenditures for land and buildings projects in the Department of Transportation. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Office of Traffic Safety
Item 2700

Expenditures

Requested 1992-93	$19,303,000
Estimated 1991-92	19,293,000
Actual 1990-91	18,587,000
Requested increase $10,000 (+0.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Office of Traffic Safety (OTS) is responsible for evaluating and approving all state and local highway safety projects supported by federal funds. To qualify for federal funding, these projects must (1) comply with uniform safety standards established by the federal Department of Transportation and (2) address highway safety problem areas identified by OTS. In addition, OTS is responsible for (1) updating the California Highway Safety Plan, (2) providing technical assistance to state and local agencies in the development of traffic safety plans, and (3) coordinating ongoing traffic safety programs.

Overview of the Budget Request

The budget proposes no workload or program changes for OTS.

The total expenditure level of $19.3 million proposed for 1992-93 includes about $19 million in federal funds primarily for grants and $317,000 in Motor Vehicle Account funds for grant administration. The proposed amount is an increase of $10,000, or 0.1 percent, above estimated current-year expenditures. The increase is the net result of an increase of $194,000 in federal grants and a decrease of $184,000 in support expenses.

Department of the California Highway Patrol

Item 2720

Expenditures

Requested 1992-93	$684,420,000
Estimated 1991-92	641,609,000
Actual 1990-91	587,442,000
Requested increase $42,811,000 (+6.7 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Workers' Compensation and Industrial Disability Costs.** The department's workers' compensation and industrial disability retirement costs are increasing. On an average annual basis, about 73 percent of the California Highway Patrol officers who retire receive industrial disability payments — a significantly higher percentage than the public safety group as a whole.
- **Inspection of Truck Terminals.** The biennial inspection of truck terminals is not self-financing, contrary to legislative intent. Legislation is needed to raise fees to make these inspection activities self-supporting.

Findings and Recommendations

	Analysis Page
1. **Workers' Compensation Cost Containment Efforts Proposed.** Expenditures for workers' compensation and industrial disability retirement are increasing. Recommend adoption of supplemental report language requiring the Department of the California Highway Patrol (CHP) to report on efforts to reduce or slow future workers' compensation and industrial disability retirement costs.	93
2. **Funding Proposal for Truck Weigh and Inspection Stations is Reasonable.** The proposal to fund the commercial vehicle inspection and regulatory program from a combination of State Highway Account and Motor Vehicle Account money is reasonable.	96
3. **Biennial Inspection of Terminals Program is Not Self-Financing.** This inspection program does not generate sufficient revenues to cover costs. Recommend enactment of legislation to raise fees so that revenues cover costs.	97

General Program Statement

The CHP is responsible for ensuring the safe, lawful, and efficient transportation of persons and goods along the state's highway system. To carry out this responsibility, the department administers three programs to assist the motoring public: (1) Traffic Management, (2) Regulation and Inspection, and (3) Vehicle Ownership Security. A fourth program, Administration, provides administrative services to the first three programs.

Overview of the Budget Request

The proposed CHP budget is primarily a workload budget.

The budget requests a total of $684.4 million for expenditure by the CHP in 1992-93. This is $42.8 million, or 6.7 percent, above estimated expenditures in the current year. Table 1 summarizes the department's expenditures, by program, for the prior, current, and budget years.

Table 1

Department of the California Highway Patrol
Budget Summary
1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Traffic management	$525.3	$573.0	$606.9	5.9%
Regulation and inspection	50.2	55.4	63.4	14.4
Vehicle ownership security	11.9	13.2	14.1	6.8
Administration (distributed)	(99.1)	(127.9)	(128.8)	0.7
Totals	**$587.4**	**$641.6**	**$684.4**	**6.7%**
State funds	*$573.2*	*$626.8*	*$668.6*	*6.7%*
Federal funds	*2.5*	*2.8*	*2.8*	—
Reimbursements	*11.7*	*12.0*	*13.0*	*8.3*
Personnel-Years	**8,665.1**	**9,018.4**	**9,135.9**	**1.3%**

Table 2 summarizes the major changes in the CHP's budget proposal for 1992-93 including:

- Baseline adjustments totaling $19.7 million; and
- Workload and program changes totaling $23.3 million. Major changes include (1) $10.3 million for telecommunications personnel and dispatch center equipment upgrades, (2) $3.5 million for increased workers' compensation costs, and (3) $2.6 million for increased workload and reorganization of the (commercial) truck regulatory program.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—Continued

Table 2

Department of the California Highway Patrol
Proposed 1992-93 Budget Changes

(dollars in millions)

	Motor Vehicle Account	State Highway Account	Reimbursements and Other	Total
1991-92 Expenditures (rev.)	$622.8	—	$18.7	$641.5
Baseline adjustments				
PERS restoration	$36.0	—	—	$36.0
Inspection/weight stations	-16.0	$16.0	—	—
Elimination of one-time costs	-11.4	—	—	-11.4
Price increase	1.7	—	—	1.7
Managers salary reduction	-3.0	—	—	-3.0
Other	-2.6	—	-$1.0	-3.6
Subtotals	($4.7)	($16.0)	(-$1.0)	($19.7)
Workload and program changes				
Telecommunication services	$9.3	—	$1.0	$10.3
Field and flight operations	3.7	—	0.6	4.3
Workers' compensation	3.5	—	—	3.5
Truck regulation and inspection	2.5	0.1	—	2.6
Data processing	1.7	—	0.4	2.1
Hazardous substance activities	0.3	—	0.2	0.5
Subtotals	($21.0)	($0.1)	($2.2)	($23.3)
1992-93 Expenditures (prop.)	**$648.4**	**$16.1**	**$19.9**	**$684.4**
Change from 1991-92				
Amount	$25.6	$16.1	$1.2	$42.9
Percent	4.1%	100%	6.4%	6.7%

Analysis and Recommendations

No Additional Traffic Officers Requested for Patrol

In the *Supplemental Report of the 1989 Budget Act,* the Legislature directed the CHP to develop a staffing methodology which is to be the basis for traffic officer requests starting in the 1992-93 budget year.

The CHP completed the required study in 1991. The study identified key factors for determining the CHP's workload and staffing levels. The factors include (1) the number of accidents occurring within CHP's jurisdiction, (2) the amount of time traffic officers spend on enforcement duties such as arresting drunk drivers, and (3) the frequency of patrol on urban and rural roadways. Some of the factors — such as the number of accidents — are beyond the CHP's control and are related to such factors as the growth in vehicle population. Other service level factors — such as the frequency of patrol on a rural roadway — are policy decisions and ought to be determined according to the Legislature's priorities.

Currently, the CHP has about 5,500 traffic officers for patrol and traffic enforcement activities, including about 4,200 assigned to road patrol and 1,300 assigned to other activities such as truck inspection and regulation.

Proposed Service Level Will Be Less Than Staffing Study Level. Based on a level of service determined to be preferable by the CHP, the staffing study identified a need of 6,000 traffic officers for road patrol — 1,800 officers more than the current level. Our review of the staffing report shows that this level of staffing would provide approximately twice the amount of road patrol time as currently provided, in addition to responding to accidents, issuing traffic citations, attending court, training, and other activities.

For 1992-93, the CHP is not proposing to expand its patrol force. Instead, the CHP intends to redistribute staff among regions in order to more effectively allocate current patrol officers so as to achieve a more consistent service level among regions.

Workers' Compensation and Industrial Disability Retirement Expenditures Are Rising

Workers' compensation and industrial disability retirement costs are rising. Additionally, workers' compensation costs are underfunded for 1992-93 and could result in an increased demand on Motor Vehicle Account (MVA) resources if the CHP is unable to pay for these costs through redirections and savings in other areas.

We recommend that the Legislature adopt supplemental report language directing the CHP to report by December 1, 1992 on specific methods it has identified to control workers' compensation program costs and to reduce the incidence of industrial disability retirements (IDRs). The report should also assess the potential effectiveness of the cost containment methods and a plan to implement them.

Annually, the CHP pays a substantial amount in workers' compensation benefits to uniformed employees (traffic officers) who are injured while performing their job duties. In general, three types of workers' compensation benefits are available to these employees. First, medical costs related to the injury are covered. Second, officers injured on the job receive full salary for one year in lieu of disability payments. (This benefit is referred to as the "4800 time," as provided under the Labor Code Section 4800.) The third type of benefit pays for vocational rehabilitation costs and provides permanent and temporary disability payments mainly beyond the first year of disability (referred to as "compensation"). In 1991-92, the department estimates total workers' compensation expenditures to be about $38 million.

Traffic officers who sustain job-related injuries and are unable to return to their patrol duties are eligible for 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.

Workers' Compensation Claims and Costs Have Been Increasing. Our review shows that the number of claims for workers' compensation as well as the total costs for these claims to the CHP have been increasing. For instance, annual claims increased from 2,235 in 1987-88 to 2,560 in 1990-91 — a 15 percent increase. Over the period 1987-88 to 1990-91, total costs of the program grew annually by a rate ranging from 6 percent to 11 percent, resulting in costs increasing from $26.7 million in 1987-88 to $34.8 million in 1990-91, as shown in Table 3. Currently, the CHP indicates that there is a total of about 5,570 active workers' compensation cases that are in various stages of review and payment.

Table 3

Department of the California Highway Patrol Workers' Compensation Costs and Industrial Disability Retirement Expenses 1987-88 through 1990-91

(dollars in millions)

	1987-88	1988-89	1989-90	1990-91
Workers' Compensation				
Amount	$26.7	$28.4	$31.6	$34.8
Percent increase	—	6.4%	11.3%	10.1%
Industrial Disability Retirement				
Amount	$30.1	$33.4	$36.9	$39.8
Percent increase	—	11.0%	10.5%	7.9%

Industrial Disability Retirement Expenses Are Rising. Table 3 also shows that over the period 1987-88 to 1990-91, IDR costs increased from $30 million to about $40 million, an annual growth rate ranging from 8 percent to 11 percent. The increase was primarily due to increases in the number of industrial disability retirees as well as the annual salary/compensation amount paid. On an average annual basis, about 73 percent of the CHP officers who retire each year receive IDR payments. CHP's average annual percentage of IDRs is higher than the Public Employees' Retirement System (PERS) public safety group as a whole, which includes local policemen, firemen, and school safety members. The rate for this group is about 40 percent. The reasons for these differences is unclear but potentially could be explained by differences in such factors as the characteristics of the retirement pools, position duties, and risk exposure on the job.

Workers' Compensation Expenditures Have Been Underfunded. The CHP is requesting $30.5 million, an increase of $3.4 million, to pay for anticipated workers' compensation costs in the budget year. Our review shows, however, that the amount requested for the budget year probably will not be adequate to cover total workers' compensation expenses. This is because the requested amount is significantly less than actual expenditures in the past. For instance, actual costs were $31.6 million in 1989-90 and were $34.8 million for 1990-91. The department indicated that in prior years, the underfunded expenditures were paid by redirections and savings in other program areas.

Based on past trends, our review indicates that it is unlikely that costs in the budget year will fall below those of past years. Consequently, in order to fully fund its workers' compensation costs, the department will probably have to redirect funds from other activities or request a deficiency from the MVA at a later time during 1992-93.

Higher IDR Costs Also Resulted in Deficiency Request. The increase in IDR expenditures has resulted, in part, in higher costs to the CHP in the form of higher employer contributions for employees' retirement. For instance, the PERS raised CHP's employer contribution rate in the current year. This rate increase resulted in a deficiency funding request of about $15.5 million for 1991-92.

Efforts to Review Workers' Compensation Costs Merit Funding. For the budget year, the CHP is requesting funds for one staff position to identify ways by which the department can contain workers' compensation costs and curb its rate of increase. By performing various cost-containment activities, the CHP anticipates that it could reduce its workers' compensation costs.

Our review indicates that the CHP's request is warranted. Furthermore, we believe that the Legislature ought to be informed of the CHP's efforts to control workers' compensation and IDR costs. Therefore, we recommend that the Legislature adopt the following supplemental report language directing the department to prepare a report on its workers' compensation program, including the impact on IDR.

The Department of the California Highway Patrol shall report to the Legislature by December 1, 1992 on its workers' compensation program. The report shall include: (1) an identification of the types of job-related injuries and circumstances resulting in workers' compensation claims, (2) identification of any financial incentives inherent in the existing workers' compensation and IDR programs, (3) a description of specific methods to control workers' compensation program costs, (4) an assessment of the potential effectiveness of these methods on workers' compensation costs and the impact on the incidence and costs of industrial disability retirement, and (5) a plan to implement the cost containment methods.

Funding Commercial Truck Regulatory Program From State Highway Account

The proposal to fund the commercial vehicle inspection and regulatory program with a combination of the State Highway Account (SHA) and the MVA is reasonable.

Currently, the CHP is responsible for operating weigh and inspection stations as part of its commercial vehicle inspection and regulatory program. Under this program, the CHP weighs commercial vehicles to ensure that trucks do not exceed legal weight levels and inspects trucks for compliance with safety equipment and operation requirements. For 1991-92, costs of the program total $33.5 million primarily from the MVA.

Beginning in 1992-93, the budget proposes to support about 40 percent of the program — about $16 million — from the SHA. The SHA derives its revenues primarily from truck weight fees and fuel taxes. The State Constitution restricts the use of fuel taxes to highway construction, maintenance, and operation, as well as the construction of transit guideways. Discussions with CHP indicated that the funding split is based on a mutual agreement between the Department of Transportation and CHP. The department maintains that using a combination of MVA and SHA money for the program is justified because the inspection program provides preventive measures to minimize operational problems (such as spills and delays) and structural damage to state highways caused by excessive truck weights. For instance, safety inspections on equipment may prevent subsequent closure of a highway in the event unsafe equipment resulted in an accident.

Our review indicates that while the funding split is arbitrary, the program reduces the cost of highway maintenance and repairs and, consequently, the use of these funds is reasonable.

Implementation of the Biennial Inspection of Terminals Program Continues to Be Slow

The inspection of terminals will take more than two years to complete at current staff levels. Because the program does not generate sufficient revenues to cover program costs, we recommend the enactment of legislation to raise the Biennial Inspection of Terminals (BIT) inspection fees to make the BIT program self-supporting.

Chapter 1586, Statutes of 1988 (AB 2706, Katz), established the BIT program. Under the BIT program, the CHP is required to inspect once every two years the truck "terminals" of people who use trucks and trailers as part of their business. A "terminal" is the place where the vehicles are garaged and maintained. The program was established with expressed legislative intent that the program would be self-financing. An inspection and reinspection fee of $100 for small terminals and $400 for large terminals is charged to cover program costs.

By July 1991 (the end of the first two years of the program) about 36,000 terminals had signed up for inspection and paid the appropriate fee.

Program Continues to Have Significant Problems. In our last *Analysis*, we pointed out a number of implementation problems in the BIT program, including a backlog of terminals to be inspected and the need to increase fees to fully support the program.

Chapter 928, Statutes of 1991 (AB 1886, Katz), subsequently amended the program to require a reinspection fee and made all fees nonrefundable. As discussed in detail below, our review of the BIT program's operation to date still shows the following:

- A backlog of terminals that have not been inspected will continue into the budget year.
- The department will not be able to meet the two-year inspection cycle without additional staff or significant changes in procedures.
- Current-year revenue from reinspection fees will be lower than anticipated.
- The program is not self-financing.

The BIT Program Continues to Have a Backlog. Data from CHP indicate that as of January 1, 1992, it had inspected only about 75 percent (or 27,000) of the terminals which should have been inspected during the first inspection cycle. This leaves a backlog of about 9,000 terminals yet to be inspected. These terminals have been waiting six months or more for an inspection after paying their fee.

To address the backlog, the budget proposes to add nine inspectors — increasing the total number of BIT inspectors to about 95. Our review indicates these positions are warranted. Even with this increased staffing level, we estimate that it will take the department until September 1992 to complete the 9,000 inspections, based on the rate of inspections conducted in the current year.

Subsequent Inspection Cycles Also Will Take Longer. Our analysis also shows that on an ongoing basis, it will take 95 staff close to three years to inspect a projected total of about 38,000 terminals (initial and renewal) and conduct all reinspections. To meet the two-year cycle, CHP would need a total of about 137 inspectors. This is 42 more inspectors than the number proposed for the budget year.

Alternatively, if CHP was able to reduce the average inspection time to seven hours (as compared to the current 10 hours) per terminal, it would be able to meet the two-year cycle at the proposed 1992-93 staff level. In its August 1991 report to the Legislature on the BIT program, the CHP identified various programmatic changes that could reduce the inspection time which the Legislature may want to consider.

Reinspection Fees Have Not Been Collected. Chapter 928, effective October 1991, required that reinspections be charged a fee of $100 or $400 depending on the type of terminal. However, our review shows that the CHP does not plan to begin collection of the reinspection fee until March 1992. Based on the average number of inspections performed monthly and a reinspection rate of 30 percent, we estimate that the delay in implementing the fee will result in a loss of about $300,000 in revenue to the MVA in the current year.

Lower Than Anticipated Revenue From BIT in Current Year. Our review further shows that program revenues in the current year will be significantly lower than the $8 million estimated in the budget. This is because the $8 million estimate assumes that the second cycle of inspections would begin in July 1991. However, the second cycle was delayed and renewal notices were not sent out until December 1991. The estimate also assumed that the reinspection fee would be collected earlier than March 1992. Based on data from CHP, we now estimate that program revenues will be about $2.8 million (instead of $8 million) in the current year.

Fees Need to Be Increased Because Program is Not Self-Financing. Our review shows that with the proposed increase in staff, the BIT program is projected to cost $8.2 million in 1992-93. If the rate of inspection remains the same as in the current year, it will take CHP three years to complete all inspections, generating average annual revenue of about $4.2 million. Thus, on an ongoing basis, the program costs will exceed revenues by about $4 million annually. Even if the average inspection time is reduced to meet a two-year cycle with the proposed staffing level, the program costs will still exceed revenues and fees will need to be increased.

In order that the program is self-supporting, fees would need to be raised — almost doubled — for revenues to meet program costs. Accordingly, we recommend that the Legislature enact legislation to raise the BIT inspection and reinspection fees.

Capital Outlay

The Governor's Budget proposes an appropriation of $15.1 million in Item 2720 for capital outlay expenditures for the CHP. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Department of Motor Vehicles
Item 2740

Expenditures

Requested 1992-93	$525,409,000
Estimated 1991-92	503,329,000
Actual 1990-91	465,687,000

Requested increase $22,080,000 (+4.4 percent)

Fiscal Recommendations

Total recommended reduction	None
Recommendation pending	$16,013,243

MAJOR ISSUES

- **Motor Vehicle Account.** The Motor Vehicle Account (MVA) faces a deficit in the current year. For the budget year and beyond, fee increases, funding shifts, and/or expenditure reductions are needed to avoid a deficit.

Findings and Recommendations

Analysis Page

1. **MVA Faces Current-Year Deficit.** This account will have a deficit in the current year because revenues are less than estimated and there is no assurance that "unidentified savings" will be achieved. 102
2. **MVA on Shaky Ground in Budget Year and There Is Increasing Demand on MVA Resources in Future.** The MVA will require fee increases, funding shifts, and expenditure reductions to avoid a deficit in the budget year. Expenditures beyond the budget year will exert increasing demands on the MVA. 105
3. **Additional Information Needed on Unidentified Savings.** Recommend that the Department of Finance report to the Legislature on how unidentified savings will be allocated to the California Highway Patrol (CHP), Department of Motor Vehicles (DMV), and Air Resources Board (ARB) in the current and budget years. Further recommend that the Legislature set its own priorities upon review of the administration's reduction plan. 106
4. **Collection of Social Security Numbers.** Withhold recommendation on $16 million to implement the collection of social security numbers on drivers' license and vehicle registration initial application and renewals pending receipt of additional information and completion of our review of the request. 107

General Program Statement

The DMV is responsible for protecting the public interest in vehicle ownership and promoting public safety on California's roads and highways. Additionally, the department provides revenue collection services for state and local agencies. To carry out these responsibilities, the department administers four programs to aid the driving public: (1) Vehicle and Vessel Identification and Compliance, (2) Driver Licensing and Personal Identification, (3) Driver Safety, and (4) Occupational Licensing and Investigative Services. In addition, the New Motor Vehicle Board operates as an independent agency within the department.

Overview of the Budget Request

The proposed DMV budget is essentially a workload budget with increases requested to implement legislation enacted in 1991.

The budget proposes total expenditures of $525.4 million for the support of the DMV in 1992-93. This is an increase of $22 million, or 4.4 percent, above estimated expenditures for the current year. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93.

Table 1

Department of Motor Vehicles Budget Summary 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Vehicle/vessel identification and compliance	$255.4	$275.4	$291.4	5.8%
Driver licensing and personal identification	122.2	135.5	138.9	2.5
Driver safety	60.6	63.2	65.3	3.3
Occupational licensing and investigative services	26.4	27.9	28.4	1.8
New Motor Vehicle Board	1.1	1.3	1.5	15.4
Administration (distributed)	(48.2)	(57.0)	(60.8)	6.7
Totals	**$465.7**	**$503.3**	**$525.4**	**4.4%**
State funds	*$450.2*	*$489.1*	*$510.9*	*4.5%*
Federal Trust Fund	*1.2*	*0.2*	*—*	*-100.0*
Reimbursements	*14.3*	*14.0*	*14.5*	*3.6*
Personnel-Years	**8,166.5**	**8,716.4**	**8,991.7**	**3.2%**

Table 2 summarizes the major changes in the DMV's proposed budget for 1992-93, including:

- Baseline reductions of $13.5 million.
- Workload and program changes totaling $29.6 million. Major changes include (1) $19.2 million for implementing new legislation and (2) $5.1 million for permanent funding of the process to administratively suspend drivers' licenses for driving under the influence of alcohol.

DEPARTMENT OF MOTOR VEHICLES—Continued

Table 2

Department of Motor Vehicles
Proposed 1992-93 Budget Changes

(dollars in millions)

	Motor Vehicle Account	Motor Vehicle License Fee Account	Other	Total
1991-92 Expenditures (rev.)	$320.0	$169.5	$19.8	$509.3
Baseline adjustments				
Employee compensation	-2.3	-1.2	-0.2	-3.7
Limited-term positions	-6.0	-2.7	—	-8.7
Managers' salary reduction	-2.0	-1.0	—	-2.9
One-time/annualized costs	-2.3	-1.2	—	-3.5
Price increase	1.7	1.1	—	2.8
Other	4.2	-1.6	-0.2	2.4
Subtotals	(-$6.6)	(-$6.5)	(-$0.4)	(-$13.5)
Workload and program changes				
Workload increases	$1.4	$0.9	$0.4	$2.7
New legislation	9.1	10.1	—	19.2
Administrative license suspension	5.1	—	—	5.1
EDP enhancements/ telecommunication	0.2	0.3	—	0.5
Driver competency enhancements	0.8	—	—	0.8
Revenue collection	0.4	0.8	—	1.2
New Motor Vehicle Board	—	—	0.2	0.2
Subtotals	($16.9)	($12.1)	($0.6)	($29.6)
1992-93 Expenditures (prop.)	**$330.3**	**$175.1**	**$20.0**	**$525.4**
Change from 1991-92				
Amount	$10.3	$5.6	$0.2	$16.1
Percent	3.2%	3.3%	1.0%	3.2%

Analysis and Recommendations

MVA Faces Current-Year Deficit

The MVA will have a current-year deficit because revenues are less than estimated and there is no assurance that "unidentified savings" will be achieved.

The MVA derives most of its revenue from motor vehicle registration fees and driver license fees. In 1991-92, vehicle registration fees account for 76 percent ($760 million) of the estimated $995 million in MVA revenues. The majority of MVA resources are used to support the activities of the DMV, the CHP, and the ARB.

Fees Were Increased in the Current Year to Balance the MVA. In our last *Analysis*, we indicated that additional revenues to the MVA would be needed to enable a transfer of funds from that account to the General Fund and at the same time leave a prudent reserve in the account. As part of the current-year budget balancing package, legislation was enacted to increase the vehicle registration fee by $5 (to $28) and the driver license fee by $2 (to $12) effective January 1, 1992. The fee increases were expected to generate $73 million in the current year. This increase enabled the 1991 Budget Act to transfer $51.5 million — revenues generated from the sale of information to the private sector and from issuance of identification cards — to the General Fund. It was estimated that after the transfer, the MVA would have a reserve of about $56 million at the end of the current year.

Updated Estimates Show a Current-Year Deficit. Our review shows that despite the fee increases, the MVA will face a current-year deficit for two main reasons:

- Revenue projections have been too optimistic.
- Expenditures are higher than anticipated.

Revenue Projections Have Been Too Optimistic. As Table 3 shows, total MVA revenues have been consistently over-estimated in recent years. In both 1989-90 and 1990-91, actual revenues fell short of projected revenues by $22.9 million and $37.5 million respectively. For the current year, the Governor's Budget now estimates revenues again to be lower than projected — by $41.2 million.

Our analysis shows that the shortfall in MVA revenues is due to overly optimistic projections of vehicle registration revenues. As shown in Table 3, there has been a shortfall in excess of $60 million in each of the last two years. The shortfall has been due primarily to a decline in new vehicles registered.

Current-Year Expenditures Are Higher Than Anticipated. While the amount of revenues going into this account has been overestimated, expenditures from this account have been underestimated. Expenditures in two areas in particular have exceeded estimates for a total increase in costs of about $17.7 million in the current year. First, the anticipated surplus in the Public Employees' Retirement System (PERS) fund which would be used to pay for CHP retirement contributions in the current year is less than expected. Second, there has been an increase in the employer contribution rate for CHP staff retirement benefits in the current year. At the time this analysis was prepared, there was pending legislation (AB 1922, Frizzelle) that

DEPARTMENT OF MOTOR VEHICLES—Continued

would prohibit the surplus in the PERS fund from being used to offset employer contribution costs and instead be used to partially offset employee contribution costs for three years beginning in the current year. If this legislation is enacted, expenditures to the MVA will be higher and would require a deficiency request of $34.8 million in the current year to cover CHP's employer contribution costs that were to be offset by the surplus.

Table 3

Motor Vehicle Account
Projected Revenues Versus Actual Revenues
1989-90 through 1991-92

(dollars in millions)

	1989-90	1990-91	1991-92
Total MVA Revenue			
Budget Act — projected	$867.2	$921.5	$1,035.9
Actual	844.3	884.0	—
Estimated	—	—	994.7
Shortfall	$22.9	$37.5	$41.2
Percent shortfall	2.6%	4.1%	4.0%
Vehicle Registration Revenue			
Budget Act — projected	$726.1	$737.8	$782.4
Actual	660.2	675.0	—
Estimated	—	—	760.0
Shortfall	$65.9	$62.8	$22.4
Percent shortfall	9.1%	8.5%	2.9%

Transfers and Savings May Not Be Adequate to Avert a Deficit. To avoid a current-year deficit, the Governor's Budget proposes to:

- Transfer $18.5 million from the State Highway Account (SHA) to the MVA in the current year.
- Reduce current-year expenditures by achieving $10 million in "unidentified savings."

Despite these proposals, our analysis indicates that the MVA will likely experience a current-year deficit. First, there is no assurance that the full amount of "unidentified savings" will materialize. This is because for 1991-92, various departments which are supported through the MVA have already identified total savings of $4.3 million relating to lower workload estimates. The budget anticipates that they will achieve an additional $10 million in savings. However, the budget does not specify how this will be achieved.

Second, our review shows that current-year revenues from truck terminal inspections — these revenues are deposited in the MVA — will be much lower than the $8 million estimated in the budget. Based on data from CHP, we estimate that revenues will be about $2.8 million from inspection fees, a difference of $5.2 million. Consequently, additional expenditure reductions will be necessary in order to balance the account in the current year.

MVA on Shaky Ground in Budget Year and There Are Increasing Future Demands on the Account

The MVA will not be balanced without additional expenditure reductions, fee increases, or funding shifts in 1992-93. Beyond the budget year, expenditures will exert increasing demands on the MVA.

Our review shows that, in the past, MVA expenditures have grown faster than revenues. One reason for the gap between revenues and expenditures is that revenues to the account grow with the increase in vehicle and driver populations, which generally are not sensitive to inflationary cost or workload increases. Additionally, MVA funds have been used to support an increasing number of activities, some of which may not be directly related to the regulation and enforcement of vehicle use and operations and the mitigation of their effects.

For 1992-93, the budget projects an MVA reserve of $37 million at the end of the year. That amount is predicated on the following proposals to increase resources and to reduce expenditures:

- Extend statutorily the $1 vehicle registration surcharge which is due to expire January 1, 1993 in order to generate about $12.5 million in revenues in 1992-93.
- Raise $3.7 million in revenues by administratively increasing from $1 to $2 the fee charged for including unpaid parking fines on driver license and vehicle registration records. This fee is deducted from parking fines collected for the courts. This could reduce general purpose revenues to local governments.
- Shift a portion ($16 million) of the cost of operating inspection and (truck) weigh stations to the SHA.
- Achieve $8 million in "unidentified savings" in 1992-93.

Our review shows that, without the proposed actions, the MVA will have a deficit at the end of 1992-93 of about $3 million instead.

Our review further shows that, beyond the budget year, several program areas will place increasing demands on the MVA.

Workers' Compensation and Industrial Disability Retirement Expenditures Are Increasing Demands on MVA. As we pointed out elsewhere in this *Analysis*, the CHP has been experiencing increasing workers' compensation costs. Additionally, increasing industrial disability retirement costs result, in part, in higher employer retirement contributions from the MVA. (Please see our analysis of Item 2720, the Department of the California Highway Patrol.)

Joint CHP and DMV Headquarters Building Project Will Have Significant Multi-Year Costs. The Governor's Budget proposes $4.5 million in 1992-93 to design preliminary plans for the construction of a new office building and parking garage for DMV and CHP headquarters. The DMV estimates the total project costs at about $252 million from the MVA over a six-year period. (Our review of this building request is in Item 2740 of the capital outlay section of this *Analysis* which is in the back portion of this document.)

The MVA Support of ARB and the California Environmental Protection Agency (Cal-EPA) Activities Are Limited Under the Constitution. The ARB and Cal-EPA are supported mostly (70 percent to 75 percent) by moneys from the MVA. Both of these governmental agencies provide environmental protection services related to mobile and stationary sources. For 1992-93, a total of $73.1 million is requested from the MVA for support of the ARB and Cal-EPA. This is an increase of 10 percent over current-year expenditures from the MVA for these agencies. In our analyses of those agencies, we discuss the constitutional limits regarding the appropriate use of MVA for the support of these agencies. (Please see Items 0555 — Cal-EPA and 3900 — ARB.)

Future Solvency Uncertain. During the budget year and beyond, further actions are likely to be needed to balance the MVA. This is because revenues to the account do not grow commensurate with the expenditures which are contemplated to be funded from the account in the budget year.

Additional Information Needed on Unidentified Savings

We recommend that the Department of Finance (DOF) report prior to budget hearings on how expenditures of the CHP, DMV, and ARB will be reduced in the current and budget years in order to achieve total MVA savings of $10 million and $8 million, respectively.

We further recommend that the Legislature set its own priorities, upon review of the administration's plan for reductions.

The budget proposes to avoid a current- and budget-year deficit in the MVA in part through "unidentified savings." The practical effect of such a proposal is to give the administration total discretion to determine what activities and programs are to be reduced without further legislative oversight. However, the administration's (and the departments' priorities) may not coincide with the Legislature's own spending priorities.

We believe that the Legislature needs to be informed of the administration's (and departments') spending priorities, and how these "unidentified savings" will be achieved. Therefore, we recommend that the DOF report to the Legislature prior to budget hearings on the amount of reductions to be made in the current and budget years by the CHP, the DMV, and the ARB as well as the activities or services that would be reduced as a result of the expenditure reductions.

We further recommend that, based on the DOF information, the Legislature set its own spending priorities for Items 2720 (CHP), 2740 (DMV), and 3900 (ARB).

Collection of Social Security Numbers

We withhold recommendation on $16 million requested from the MVA for the collection of social security numbers on initial driver license and vehicle registration applications and renewals pending receipt of additional information and completion of our review of these costs.

The DMV is requesting $16 million for 433 personnel-years to implement Ch 90/91 (AB 1297, Isenberg) in 1992-93. Chapter 90 requires DMV to collect social security numbers on original and renewal applications for driver license and vehicle registration. Additionally, it requires DMV to refuse renewal of vehicle registration if the registered owner has violated a written promise to appear in court or pay a fine for a traffic violation, and to refuse the renewal or issuance of a driver license if the applicant has any delinquent parking citations outstanding.

The DMV estimates that it will take three and one-half years to fully implement Chapter 90 — beginning January 1, 1992 and with completion in 1994-95. The DMV also estimates total costs for all years to be about $52 million, with the cost in 1992-93 being $16 million.

At the time of this *Analysis*, we were waiting for additional information from the department regarding this proposal. Consequently, we withhold recommendation on the requested amount pending the receipt of additional information from the department and completion of our review of the costs.

Capital Outlay

The Governor's Budget proposes an appropriation of $11.7 million in Item 2740 for capital outlay expenditures for the DMV. Please see our analysis of Item 2740 in the capital outlay section of this *Analysis* which is in the back portion of this document.

Stephen P. Teale Data Center
Item 2780

Expenditures

Requested 1992-93	$78,473,000
Estimated 1991-92	80,644,000
Actual 1990-91	83,822,000
Requested decrease $2,171,000 (-2.7 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Legislative Review of Projects Needed.** Recommend adoption of Budget Bill language requiring the Teale Data Center to notify the Legislature of projects with multi-year expenditures prior to project implementation. 109

General Program Statement

The Stephen P. Teale Data Center, one of the state's three consolidated data centers, provides centralized electronic data processing service to the state. The costs of operating the center are fully reimbursed by approximately 166 client agencies through the Teale Data Center Revolving Fund.

Overview of the Budget Request

The budget proposes a slight reduction in funding level for the support of the Teale Data Center in 1992-93, primarily the result of the cancellation or modification of various computer projects.

The budget proposes expenditures of $78.5 million for the data center which is a decrease of $2.2 million (2.7 percent) below current-year estimated expenditures. Table 1 displays the major changes proposed in the budget.

Table 1

Stephen P. Teale Data Center
Proposed 1992-93 Budget Changes

(dollars in thousands)

	TDC Revolving Fund
1991-92 Expenditures (Revised)	$80,644
Baseline adjustments	
Project cancellation/modification	-$5,134
Paid-up installation payment agreements	-969
Pro rata decrease	-543
Price increase	314
Salary rollback/limited-term positions	-79
Subtotal	(-$6,411)
Workload changes	
CPU replacement	$3,890
Loan interest expense	350
Subtotal	$4,240
1992-93 Expenditures (Proposed)	$78,473
Change from 1991-92	
Amount	$2,171
Percent	-2.7%

Analysis and Recommendations

Legislative Review Needed Prior to Project Implementation

We recommend that the Legislature adopt Budget Bill language directing the Teale Data Center to provide specified notification to the Joint Legislative Budget Committee and the fiscal committees prior to implementing any new computer projects which commit the state to multi-year expenditures in order that the Legislature can review the merits of these projects.

In order to provide reliable data processing service to its client agencies, the data center updates, as well as occasionally expands, its computing capacity through the replacement of computer processor units (CPUs), the acquisition of new units, and the application of new technologies. Generally, prior to such projects being implemented, a feasibility study report must be reviewed and approved by the Office of Information Technology (OIT), and expenditure authority be provided by the Legislature in the Budget Act for costs associated with the projects. This process provides the Legislature with an opportunity to consider the merits of a project and the related state expenditures before the project is implemented.

CPU Replacement Project Has Multi-Year Costs Beginning in Budget Year. The data center is proposing to replace two smaller processors with a larger CPU in order to provide additional capacity to accommodate anticipated workload growth. A feasibility study report for the replacement project was submitted in November 1991, and subsequently approved by OIT in early December. Total equipment cost is estimated at $20.2 million from 1992-93 through 1996-97. For 1992-93, the budget proposes $3.9 million for the CPU replacement project. Our review of the feasibility study report for the project showed that the CPU replacement is warranted, and we recommend that the amount requested for 1992-93 be approved.

Project Implementation Will Precede Legislative Review. However, our review also shows that the data center intends to procure and install the new CPU in the current year (February 1992), with installment payments starting in the budget year. Thus, the replacement project will be implemented in the current year, and will effectively commit the state to multi-year future expenditures of state funds ***prior*** to the Legislature being able to debate the merits of these expenditures.

While we recognize that the data center should have certain program flexibility in order to be able to ensure data processing services to client agencies, projects that involve any future (or multi-year) expenditures of state funds ought to be subject to legislative review and approval. In order that the Legislature may be informed and is provided the opportunity to consider the merits of expenditures on these kinds of projects, we recommend that the Legislature adopt the following Budget Bill language requiring the data center to provide adequate notification prior to their implementation.

> The Director of the Teale Data Center shall not enter into any procurement agreement with future or multi-year expenditures for computer projects for which the Legislature has not been so informed. The Director of Finance may authorize such agreement or projects to proceed no sooner than 30 days after notification in writing of the necessity therefor is provided to the chairpersons of the fiscal committees and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the committee, or his or her designee, may in each instance determine.