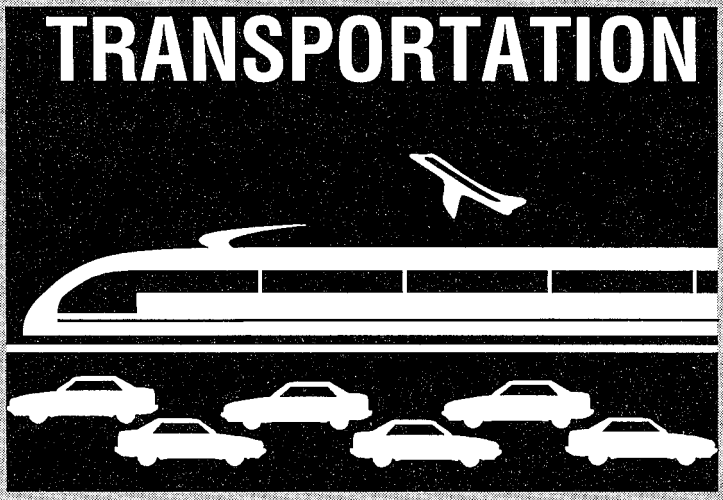
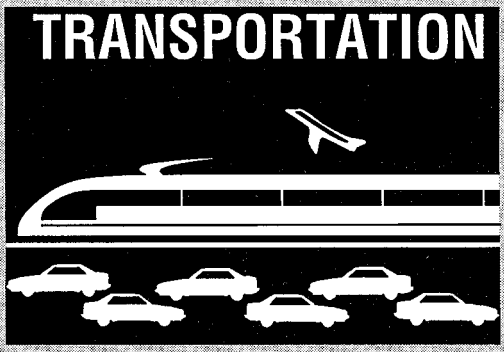
TRANSPORTATION





MAJOR ISSUES

▌***Transportation Funding Gap of About $4.1 Billion Should Be Bridged Through Increased Revenues.*** This gap is the result of the defeat of a $1 billion rail bond measure, lower-than-anticipated revenues from taxes and fees, and transfers of transportation funds for other purposes. This gap could be closed by reducing the 1992 State Transportation Improvement Program (STIP), extending the 1992 STIP over a longer period, or raising additional funds. We recommend that the Legislature adopt a revenue enhancement package, relying on various user fees and pricing strategies, to provide additional funds for projects to be constructed in the year 2000 and beyond. The package should have a delayed operative date based on when cash is needed. (See page 18.)

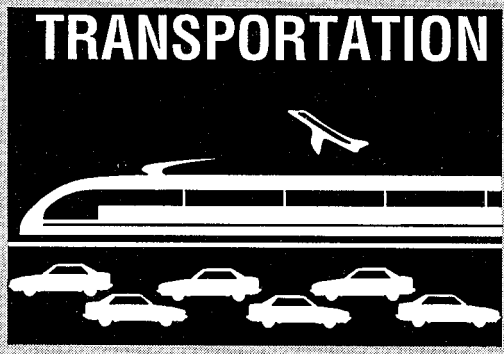
▌***Caltrans Will Not Construct an Estimated $748 Million in Projects.*** Based on recent estimates of available state and federal funds, Caltrans believes there will not be sufficient funds to construct all the highway projects scheduled for delivery in 1993-94. Consequently, Caltrans estimates that the construction of about $748 million in projects will be deferred into 1994-95. (See page 37.)

▌***Caltrans Will Reduce Capital Outlay Support Staff.*** The department proposes this cutback in staff for project development in anticipation of increased efficiencies in the department. Project delivery could suffer if the efficiencies are not achieved. (See page 36.)

▌***No Efficiencies Expected From Headquarters Support Staff.*** The department proposes virtually the same level of headquarters staff supporting project development staff as in the current year. We recommend that headquarters staff be reduced to correspond with fewer project development staff and a lower workload. (See page 37.)

▌***Transit Capital Improvement (TCI) Program Should Be Abolished.*** Recent changes in transit funding call for a reexamination of the TCI program. We recommend abolishing the program and transferring funding to the Flexible Congestion Relief program in order to improve state fiscal flexibility while providing the same amount of funding for transit improvement. (See page 42.)

▌***High-Speed Rail Study Goes Beyond Legislative Direction.*** Caltrans has made the decision, without legislative direction, to focus exclusively on high-speed rail development in the Los Angeles-San Francisco corridor. We recommend that the Legislature reduce resources for the study and enact legislation to set policy and programmatic guidelines for development of high-speed rail in the state. (See page 46.)



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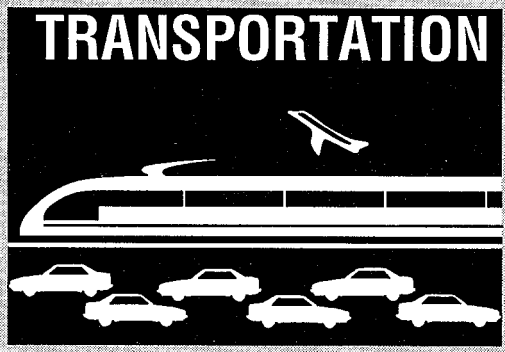


OVERVIEW

Total expenditures from state funds for transportation programs are proposed to be higher in 1993-94; however, transportation expenditures from all funds are proposed to be lower. The decrease will be in highway and rail capital improvement activities, primarily due to the lower level of local sales tax revenues available for highway improvements and to the defeat of Proposition 156 which would have authorized $1 billion in rail bond funds.

For traffic enforcement activities, the budget proposes increases in both the California Highway Patrol and the Department of Motor Vehicles. Additionally, the budget projects that funding for local streets and roads will be higher in 1993-94, as a result of increased gas tax revenues subvened to local governments.

The budget proposes total state expenditures of about $4.6 billion for transportation programs in 1993-94. This is an increase of $354.3 million, or 8.4 percent, over estimated expenditures in the current year.

Figure 1 shows that state-funded transportation expenditures increased by $1.9 billion since 1986-87, representing an average annual increase of 7.6 percent. When adjusted for inflation, these expenditures increased by an average of 4.2 percent annually. In addition, Figure 1 shows that transportation expenditures have increased as a share of total state expenditures over the period. In 1993-94, proposed transportation expenditures will constitute about 9.2 percent of all state expenditures.

Of the 1993-94 state transportation expenditures, $3.6 billion is proposed for programs administered by the state, and about $907 million is for subventions to local governments for streets and road

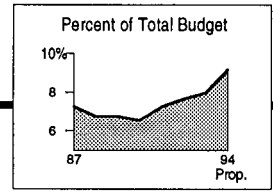
purposes. Another $106 million is projected to be for debt service payments on rail bonds issued under Propositions 108 and 116 of 1990.

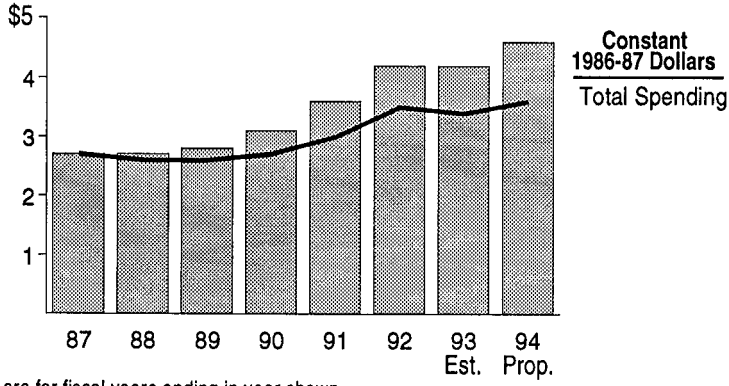
In addition to the $4.6 billion in state funds for transportation, the budget proposes expenditures of $2.1 billion in federal funds and $861 million in reimbursements.

Figure 1

Transportation Expenditures Current and Constant Dollars 1986-87 Through 1993-94[a]

All State Funds (In Billions)





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

SPENDING BY MAJOR PROGRAMS

Figure 2 shows spending for the major transportation programs in detail. Specifically, the budget proposes expenditures of $5.4 billion for the Department of Transportation in 1993-94—a reduction of $536.6 million (9 percent)—below estimated current-year expenditures. This reduction is primarily the result of a projected drop in reimbursements for Caltrans in 1993-94—$310 million (or 27 percent) less than estimated for the current year. The decrease reflects primarily a lower level of highway capital outlay work funded by local sales tax revenues which have been less than anticipated as a result of the recession.

As Figure 2 also shows, spending for the California Highway Patrol (CHP) and the Department of Motor Vehicles (DMV) is proposed at

$678.4 million and $517 million, an increase of $84.6 million (14 percent) and $30.6 million (6.3 percent) respectively. For the CHP, the proposed increase is due primarily to restoring program reductions made in the current year. Similarly for the DMV, the budget proposes to restore current-year program reductions and to fund the department with a combination of Motor Vehicle Account (MVA) and Motor Vehicle License Fee Account (MVLFA), instead of primarily from the MVA as in the current year.

Figure 2

Transportation Budget Summary
Selected Funding Sources
1991-92 through 1993-94

(Dollars in Millions)

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Change from 1992-93 Amount	Change from 1992-93 Percent
Department of Transportation					
State funds	$2,627.3	$2,662.5	$2,531.6	-$130.9	-4.9%
Federal funds	1,546.0	2,131.7	2,036.1	-95.6	-4.5
Reimbursements	647.9	1,142.0	831.9	-310.1	-27.1
Totals	**$4,821.2**	**$5,936.2**	**$5,399.6**	**-$536.6**	**-9.0%**
California Highway Patrol					
Motor Vehicle Account	$631.4	$560.1	$640.6	$80.5	14.4%
Other	21.7	33.7	37.8	4.1	12.2
Totals	**$653.1**	**$593.8**	**$678.4**	**$84.6**	**14.2%**
Department of Motor Vehicles					
Motor Vehicle Account	$305.2	$407.3	$331.1	-$76.2	-18.7%
Motor Vehicle License Fee Account	167.5	58.5	166.0	107.5	83.8
Other	21.1	20.6	19.0	-1.6	-7.8
Totals	**$493.8**	**$486.4**	**$517.0**	**$30.6**	**6.3%**
Special Transportation Programs					
Transportation Planning and Development Account	**$57.4**	**$55.0**	**$113.5**	**$58.5**	**106.4%**

Additionally, the budget proposes a significant increase in the State Transportation Assistance (STA) program in 1993-94. The STA program provides funds to local transportation agencies to operate public mass transit systems. Annual funding of the program is determined based on statutory formula and the level varies depending on anticipated revenues into the Transportation Planning and Development (TP&D) Account. For 1993-94, the budget projects significantly higher revenues

from gas and diesel sales tax to the account, enabling a significantly higher funding level for the program.

MAJOR BUDGET CHANGES

Figure 3 presents the major budget changes proposed for 1993-94 in various transportation programs.

As the figure shows, the budget proposes a reduction of $240.8 million in rail improvements to be funded from bond funds. This reduction is due to the defeat of Proposition 156 which would have authorized $1 billion in rail bond funds. With the defeat of this measure, the state will deplete, in 1993-94, all of its existing rail bonds authorized by Proposition 108. The budget also proposes a lower level of highway and mass transportation capital outlay projects—a decrease of about $97 million below current year. Project design and development will also be lower. On the other hand, the budget proposes to increase activities in transportation research and development of new technologies, as well as studying the feasibility of high speed rail in the San Francisco Bay Area-Los Angeles corridor.

In terms of traffic enforcement activities, the budget is proposing to restore one-time current-year reductions in both the DMV and the CHP, for a total of about $49 million. The DMV is also proposing to enhance its revenue collection efforts and continue to collect social security numbers in 1993-94. Additionally, the department requests about $4.5 million to implement various new legislation.

Figure 3

Transportation
Proposed Major Changes for 1993-94
All Funds[a]

Department of Transportation — Requested: $5.4 billion; Decrease: $536.6 million (-9.0%)

- $24.3 million to expand research and development of new transportation technologies and study feasibility of research center
- $9.9 million to increase congestion relief activities on state highways
- $5.7 million to increase highway maintenance
- $4.5 million to study feasibility of high-speed rail

- $240.8 million in grants for rail improvements
- $96.9 million in highway and mass transportation capital outlay
- $23.3 million in highway project design and development

California Highway Patrol — Requested: $678.4 million; Increase: $84.6 million (+14.2%)

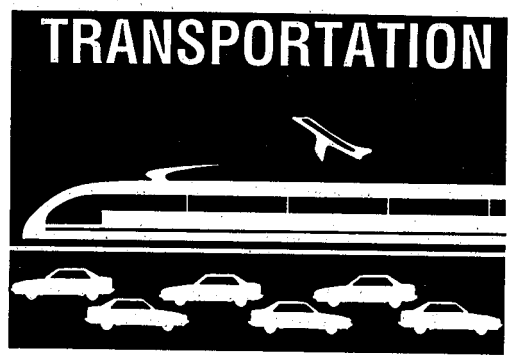
- $20.8 million to restore one-time reduction in current year
- $8.8 million to implement communications technology program
- $8.0 million to replace various equipment
- $5.0 million for facilities repairs
- $3.0 million for additional workers' compensation costs

Department of Motor Vehicles — Requested: $517 million; Increase: $30.6 million (+6.2%)

- $28.4 million to restore one-time reductions in current year
- $7.0 million to continue collection of social security numbers
- $5.3 million to contract for revenue collections
- $4.5 million to implement new legislation

- $2.6 million to adjust for formula-based workload changes

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



CROSSCUTTING ISSUES

IMPACT OF 1992-93 BUDGET ACTIONS

The transportation programs, in general, are not significantly affected by the actions taken as part of the current-year budget solution. Specifically, the Department of Transportation's (Caltrans) programs are not adversely affected. However, two departments—the California Highway Patrol (CHP) and the Department of Motor Vehicles (DMV)—sustained unallocated reductions totaling $67 million in 1992-93.

Transportation Programs

In the current year, as part of the overall budget solution, money was transferred from various transportation funds to the General Fund. Specifically, a total of about $126.8 million was transferred from various accounts in the State Transportation Fund—including the State Highway Account, the Transportation and Planning Development Account, the Aeronautics Account, and the Seismic Safety Retrofit Account—that support the activities of Caltrans. However, because of the conditions of these accounts, as well as the availability of federal funds for transportation, these transfers did not necessitate any significant modifications of Caltrans' program activities.

In addition, the 1992-93 budget transferred to the General Fund $67 million in Motor Vehicle Account (MVA) revenues generated from the sale of information. The MVA supports the CHP, the DMV, and programs in the Air Resource Board. Because the MVA was estimated

to be barely balanced in the current year, the transfer resulted in reductions in the 1992-93 expenditure levels of both the CHP and the DMV. Consequently, funding for the CHP was reduced by $33 million (or about 5 percent of its 1992-93 expenditures) and the DMV sustained an unallocated reduction of $34 million (about 6.6 percent of current-year expenditures).

CHP and DMV Programs

Figure 4 shows the actions taken by both the CHP and DMV to reduce their 1992-93 expenditures. In general, both departments are deferring the implementation of new programs, including those required by legislation. The DMV has also revised the time schedule

Figure 4

California Highway Patrol and Department of Motor Vehicles Budget Reduction Actions 1992-93

(Dollars in Millions)

Actions	Reductions	Personnel-Year Reductions
California Highway Patrol		
Reduce uniformed personnel	$7.0	200
Defer telecommunications expansion	6.0	53
Defer other new programs	5.4	35
Cancel new cadet training	5.0	—
Reduce vehicle purchases	2.6	—
Defer commercial vehicle regulation program	2.4	35
Reduce helicopter operations	2.0	—
Miscellaneous	2.6	—
Totals	**$33.0**	**323**
Department of Motor Vehicles		
Revise social security collection program	$11.5	355
Defer capital outlay projects	6.8	—
Reduce equipment purchase	2.4	—
Unidentified savings	1.8	—
Reduce travel	1.7	—
Defer various new programs	1.6	30
Reduce field office work	1.3	26
Defer printing of publications	1.1	—
Miscellaneous	5.8	76
Totals	**$34.0**	**487**

and level for the collection of social security numbers in the current year. Additionally, both departments are reducing equipment and vehicle purchases. The CHP is also deferring the expansion of its telecommunications system, while the DMV is deferring various capital outlay improvements.

The service levels provided by the two departments are also reduced. As Figure 4 shows, the CHP is reducing its uniformed personnel (including traffic officers) by 200 personnel-years below planned staffing for 1992-93, and the DMV is reducing its field office work force slightly, by 26 personnel-years. In addition, the CHP is canceling its new cadet training for the current year.

TRANSPORTATION PROGRAMMING AND FUNDING

California finances its highway and mass transportation programs with a combination of federal, state, local, and private funds. The multi-year expenditure of state and federal funds for transportation capital projects is contained in the seven-year State Transportation Improvement Program (STIP) and the five-year State Highway Systems, Operations, and Protection Plan (HSOPP), both of which are adopted in even-numbered years by the California Transportation Commission (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.

State law requires Caltrans every two years to submit to the CTC a fund estimate projecting state and federal revenues and expenditures for highway and rail projects over a seven-year period. The 1992 Fund Estimate was used to provide a basis for scheduling projects to be funded over the seven-year 1992 STIP period from 1992-93 through 1998-99. However, since the 1992 Fund Estimate was adopted, several significant funding changes have occurred that limit Caltrans' ability to finance the 1992 STIP as programmed.

This section examines:

- Changes to available state and federal funds since adoption of the 1992 Fund Estimate and STIP.
- Funding of the seismic retrofit program for state toll bridges.
- The implications of these funding changes on the state's transportation program.
- Revenue options for the Legislature to consider.

Funding Changes Since Adoption of 1992 Fund Estimate

State Funds Significantly Less Than Estimated

State funds will be at least $3.3 billion less than anticipated in the 1992 Fund Estimate. This is due to (1) reductions in revenues received from transportation taxes and fees, (2) transfers of transportation funds for nonhighway or rail purposes, and (3) defeat of a $1 billion rail bond initiative in November 1992.

Two primary state funding sources are used to fund highway and mass transportation capital outlay projects—the State Highway Account (SHA) and voter-approved general obligation bonds.

SHA Revenues Below Estimates for 1992-93 and 1993-94. The SHA receives most of its revenues from the state's excise tax on gasoline and diesel, and from truck weight fees. Our analysis indicates that, for 1992-93 and 1993-94, SHA funds will be at least $605 million less than anticipated in the Fund Estimate. There are two main reasons for this decline. First, gasoline tax revenues and truck weight fees are projected to be $340 million less than anticipated, mainly as a result of the recession. Second, as part of the overall budget balancing action, some SHA revenues have been diverted for non-STIP purposes in 1991-92 and 1992-93. These transfers, as well as transfers proposed in 1993-94, total $266 million and are shown in Figure 5.

Figure 5

State Highway Account Transfers to Other Funds

(In Millions)

	Amount
1991-92	
To Motor Vehicle Account (MVA)	$38.5
1992-93	
To General Fund (rail bond debt service)	45.0
To General Fund	45.0
To MVA	77.4
Subtotal	$205.9
1993-94 (proposed)	
To General Fund	$60.0
Total	**$265.9**

SHA Funds Will Be Below Estimates for STIP Period by $2.3 Billion. Over the seven-year STIP period, through 1998-99, we estimate that SHA resources will be below estimated amounts by about $2.3 billion. This reduction is due to the following:

- $266 million from the transfers of SHA resources through 1993-94, as shown in Figure 5 (assuming no additional future transfers). Figure 5 shows that a total of $105 million is transferred in the current and budget years to the General Fund. These transfers include rental income and interest accrued to the

SHA, and these funds are not subject to restrictions under Article XIX of the State Constitution.

- $1.9 billion from reduced gasoline tax and weight fee revenue collections through 1998-99. (This estimate includes the drop of $340 million in 1992-93 and 1993-94 revenues.)
- $96 million from shifting the CHP's cost of truck weight enforcement from the Motor Vehicle Account (MVA) to the SHA. (This shift began in 1992-93.)

To the extent additional transfers from the SHA are made for other purposes, the level of available resources for transportation will decrease accordingly. On the other hand, if gas tax revenues and truck weight fees rebound with the economy, estimated resources would be more on target.

Defeat of Rail Bond Initiative Reduces Funds for STIP Programming. In addition, the 1992 Fund Estimate assumed the availability of $3 billion in bond funds for rail projects. Voters approved the first bond measure of $1 billion in 1990. However, in November 1992, voters defeated Proposition 156, which would have provided another $1 billion in general obligation bond funds for statewide rail improvements. (The third measure is scheduled to appear on the ballot in 1994.) Thus, Proposition 156's defeat leaves the STIP underfunded by at least $1 billion. Moreover, the availability of the final $1 billion from the 1994 ballot initiative is not certain.

Costs of Toll Bridge Seismic Retrofit Program Not Taken Into Account

Based on Caltrans' schedule, retrofitting the state's toll bridges to seismic safety standards will cost about $650 million over the 1992 STIP period. These expenditures were not anticipated in the 1992 Fund Estimate. Funding these retrofit projects without identifying new fund sources will reduce available funding for the 1992 STIP correspondingly.

When the Fund Estimate was prepared, Caltrans had not yet estimated a cost to seismically retrofit the state's toll bridges. Toll bridge retrofit is required by the Legislature as part of Caltrans' Seismic Retrofit Program. Caltrans now estimates that it will cost $650 million to retrofit toll bridges, including $110 million for support (design and engineering) and $540 million for construction. The work is expected to be contracted by the end of 1994. Absent additional funds available for

this work, it will require diverting funds already programmed for other STIP projects, leaving a funding gap of $650 million.

More Federal Funds Available—But Mostly for Local Assistance

Under the new federal transportation act, the state could receive up to $3 billion more in federal funds than anticipated in the 1992 Fund Estimate. However, almost all of these funds are designated for local assistance and do not allow for increased STIP programming.

The 1992 Fund Estimate projected that the state would receive about $9.1 billion in federal funds over the STIP period. Because of the new federal act—Intermodal Surface Transportation Efficiency Act (ISTEA)—Caltrans now estimates that the state will receive up to $3 billion more. However, our review shows that the state will not be able to use most of the additional federal funds to backfill for the funding gap in the 1992 STIP. This is because almost all of the increase is designated for increased local assistance. In addition, because of the federal budget deficit situation, it is not clear at this time whether the federal government will appropriate the full amount authorized by the ISTEA during the STIP period.

New Federal Program Widens STIP Funding Gap

In order to meet requirements of a new federal program, the state will have to shift funds from projects already programmed in the STIP to other new projects. This will leave the STIP underfunded by up to $200 million.

The ISTEA also establishes a new Transportation Enhancement Program to be funded with 10 percent of the state's portion of federal funds. Caltrans estimates that this will require $200 million in funds over the STIP period. Projects must fall into one of the following categories: bicycle or pedestrian facilities, acquisition of scenic easements or historical sites, scenic or historic highway programs, landscaping and other beautification, historic preservation, rehabilitation of historic transportation buildings or facilities, preservation of abandoned railway corridors, control and removal of outdoor advertising, archaeological planning and research, or mitigation of water pollution due to highway runoff.

Caltrans estimates that only a few of the programmed STIP projects fall in the new program categories of projects to be eligible for Transportation Enhancement funding. Because Caltrans has already

programmed all available funds, it will have to shift funds from already programmed projects in the STIP to additional Enhancement projects. This will leave the STIP underfunded by *up to* $200 million.

Significant Funding Gap Exists

In summary, we project that the STIP, as programmed, is underfunded by about $4.1 billion. This gap could be larger to the extent that SHA resources are transferred for other purposes after 1993-94. In addition, the availability of $1 billion in rail bonds from the 1994 election is not certain.

The components of the $4.1 billion include:

- $3.2 billion in reduced state funds, including $1 billion from the defeat of Proposition 156, $1.9 billion from reduced SHA revenues and $362 million from the use of SHA resources for other purposes.
- Increased expenditures of about $650 million to pay for the seismic retrofit of the state's toll bridges.
- Need to program up to $200 million of Transportation Enhancement projects with federal funds.

Dealing With the Funding Gap

Options For the Legislature

The Legislature has several options to deal with the $4.1 billion funding gap. These options include: reducing the 1992 STIP, extending the 1992 STIP program over a longer period, raising additional funds, or some combination thereof.

Of these options, we recommend the enactment of legislation to provide additional funding in order that transportation projects can be programmed and developed for the year 2000 and beyond with assurance that funds will be available for their completion. We further recommend that the Legislature adopt a revenue package with a delayed operative date that corresponds to when cash will be needed.

Given the sizable gap, the Legislature is faced with the question of how to fund all of the toll bridge seismic retrofit work and planned transportation improvements over the next several years, as they are currently programmed in the 1992 STIP. Four main options are available: (1) reducing total program levels by reducing the 1992 STIP,

(2) funding the 1992 STIP over an extended time schedule, (3) providing additional revenues to keep the 1992 STIP on schedule, or (4) some combination of the above.

It is important to emphasize that the underfunding of the STIP is a *programming* problem, as opposed to a *cash-flow* problem. For instance, Caltrans has consistently reported a sizable cash balance of hundreds of millions of dollars (as of January 1993, the balance was over $700 million), and there are sufficient funds to pay for the construction of projects for some time. However, in order to fully fund all the projects currently scheduled for construction during the 1992 STIP period, additional resources will be needed in late 1994 or 1995, as these projects become plan-ready and are constructed. Furthermore, in order to be able to make funding commitments for additional projects to be constructed as part of the 1994 STIP, there needs to be some assurance of the availability of revenues to complete additional projects. Absent such assurances, the integrity of the STIP process as the state's transportation planning instrument is open to question.

Reducing the 1992 STIP. The Legislature could direct the CTC to reduce the size of the 1992 STIP by $4.1 billion—in essence, defunding projects that, under the current STIP, are scheduled to receive funding. Alternatively, the Legislature could stipulate that the reduction include a combination of STIP *and* non-STIP programs, such as the State-Local Transportation Partnership. There are several potential problems with reducing the STIP program. First, projects are scheduled in the STIP for delivery in such a way as to meet statutory geographical formula (for instance, county minimum) for fund expenditures. Defunding certain projects would necessitate a complicated reprogramming of the remaining projects to meet these statutory requirements.

Second, projects in the STIP are programmed to meet complex federal air-quality requirements in order to ensure the receipt of federal funds. Deleting certain projects could put the STIP out of compliance with these requirements, thus endangering the availability of federal funds.

In addition, there are other policy and programmatic decisions that would need to be addressed, including:

- What combination of highway and rail projects ought to be removed from the STIP?
- How much funding should be removed from non-STIP programs, as opposed to STIP projects?

Stretching Out the 1992 STIP. As a second option, the Legislature could direct the CTC to fund all 1992 STIP project commitments, but

over a longer time period than originally scheduled. For instance, funding of the 1992 STIP could be extended through the 1994 STIP period, thereby using additional revenues to be available in the last two years of the 1994 STIP (1999-2000 and 2000-2001) for currently programmed projects. If this were done, then no new projects could be programmed in the 1994 STIP.

One potential complication with this approach is that the Legislature would have to provide some relief from the geographic formula requirements. Currently, these statutory fund allocation requirements must be met for each five-year period. The 1992 STIP, as programmed, meets this requirement. Stretching out the funded program over a longer period means that the formula requirements will not be met.

Another potential problem is that there might not be sufficient funds available from the two additional years to cover a $4.1 billion gap. Our rough estimate shows that stretching out the 1992 STIP for two more years could still leave a funding gap of up to $500 million.

Provide Additional Revenues. In order to complete the 1992 STIP on schedule and allow the CTC to program additional projects in the 1994 STIP, up to $4.1 billion in additional revenues would be needed.

Analyst's Recommendation. In our view, reducing the size of the 1992 STIP is not a practical option. To do so would entail significant administrative costs and efforts to reschedule projects in the program. More importantly, it would require local transportation planning agencies to reprioritize highway and rail projects in a way that is consistent with local plans and meet federal air quality standard requirements. Failure to do so could jeopardize the amount of federal funds available to the state and local governments.

The Legislature could choose to extend the funding of the 1992 STIP over a longer period. However, doing so would result in the state not meeting its funding commitment as set out in the *Transportation Blueprint*. Additionally, because no additional projects could be programmed for the last two years of the 1994 STIP (1999-2000 and 2000-2001), Caltrans and local governments would not be able to begin engineering work on projects to be constructed in the year 2000 and after. As a consequence, when additional funds did become available in 2001 (after funding all 1992 STIP projects), there might not be sufficient projects in the development pipeline.

For the above reasons, we recommend that the Legislature provide additional funding for projects to be programmed in the 1994 STIP. Because actual cash outlay would not be needed until a later date (potentially late 1994 or 1995, depending on the cash balance available),

we further recommend that the revenue package be adopted with a delayed operative date that corresponds to when cash will be needed.

Transportation Revenues Should Rely on User Fees

We recommend that if the Legislature raises revenues to bridge the STIP funding gap, it use a combination of increases in gasoline taxes, higher bridge tolls and other pricing strategies. We recommend that if bond financing is used to fund capital improvements, the Legislature not rely on general obligation bonds, but use revenue bonds instead. This is because revenue bonds serviced by transportation revenues would be consistent with relying on user fees to fund transportation facilities.

If the Legislature decides to increase revenues to make up for the shortfall in the STIP, several options are available. These include (1) increasing the state gasoline tax, (2) raising bridge tolls, (3) implementing various pricing programs, and (4) a combination of the above.

In determining what combination of options to use, there are some general criteria the Legislature should consider.

Need for Reliable Revenue Sources. Transportation projects often require a long lead time to design and build. Thus, it is important to have a reliable and predictable fund source for a transportation capital outlay program to be implemented.

State Has an Interest in Improving Air Quality and Relieving Congestion. The state has an interest in both reducing congestion and improving air quality. The California Clean Air Act requires regions with serious or severe air-pollution problems to substantially reduce the rate of increase in passenger vehicle trips and vehicle miles traveled (VMT). In addition, many urban areas of the state currently experience severe traffic congestion at certain times of the day, which not only contributes to air pollution but has an economic cost (such as time delays) as well.

Taxes and fees can help to discourage vehicle use in general, and during specific times of the day, if applied selectively or differentially. For example, implementing congestion pricing strategies, such as raising bridge tolls during peak commute hours, will give drivers an incentive to seek alternative methods of transportation or to change their commute times. The Legislature should raise revenues in such a way that will contribute to reducing air pollution and congestion.

Gasoline May Not Be the Fuel of the Future. The California Clean Air Act also requires that by the year 2003, 10 percent of the new cars sold in California emit no pollutants. While it is not yet clear how this requirement will be met, it is likely that these new cars will be powered by electricity or a substitute fuel such as ethanol. Thus, people using these (alternative fuel) vehicles will not be paying gas taxes for the use of the highways. As air quality regulations become increasingly strict, the use of gasoline alternatives is likely to increase. The Legislature ought to consider the long-term viability of gasoline taxes as the primary source of future transportation revenues.

Based on the above criteria, we recommend that the Legislature, in order to raise revenues, rely on a combination of user fees that charges users according to the extent of use of the system and the social costs associated with that use. Several such fees are discussed below.

Raise Gasoline Taxes. Under current law, the state gasoline tax will increase by 1 cent in January 1994 to 18 cents-per-gallon. This represents the last increment of a 9-cent tax increase resulting from the passage of Proposition 111 in 1990.

The Legislature could continue to increase the gas tax after 1994. Currently, each 1 cent of gasoline tax provides approximately $100 million to the State Highway Account. Extending the tax by 1 cent per year over the last five years of the STIP (1994-95 through 1998-99) could raise SHA revenues by $1.5 billion.

Gas taxes would provide a relatively stable source of funds, at least for the next several years. In addition, it is a reasonable measure of highway use by causing people who drive more miles to pay a greater amount of tax. Thus, it could contribute to reducing the number of automobile trips and VMT. Furthermore, the gas tax could also be periodically increased based on an index to build, maintain, and operate the state's highway system. In doing so, the gas tax would more accurately reflect to users the cost of using the highway facilities.

On the other hand, raising gas taxes does nothing to change *when* people choose to drive. Additionally, because of the future trend toward zero-emission vehicles, it is not clear that gasoline taxes can continue to be a stable revenue source in the long-term.

Raise Bridge Tolls. A supplemental source of revenues is to increase bridge tolls. There are currently nine state toll bridges, including seven in the San Francisco Bay Area. Tolls have been increased in recent years on the Bay Area bridges to fund various capital outlay projects.

Currently, tolls on all state bridges for passenger vehicles are $1 (except for the Vincent Thomas Bridge which is 50 cents). Based on

current traffic use, doubling automobile tolls statewide would raise approximately $90 million annually.

Bridge tolls are a cost to drivers and thus can contribute to reducing the use of bridge facilities. In addition, by increasing tolls at certain peak periods, the state could help to reduce traffic congestion on these bridges.

Implement Pricing Strategies. The Legislature could implement other pricing strategies to raise transportation revenues. These strategies rely on charging users for the cost of using transportation facilities. Currently, drivers pay some of the usage costs through gasoline taxes and various registration and license fees. But these taxes and fees do not pay for all of the social costs of automobile use, from increased air pollution to traffic congestion. For instance, a motorist pays the same amount regardless of when the facilities are used and there is no differentiation between the demand on the system during peak hours versus nonpeak hours. Implementing differential pricing would result in greater efficiency in the use of transportation facilities. There are different types of pricing strategies, including:

- **Congestion pricing,** or charging drivers a fee for using their cars during peak driving periods. The rationale is that the decision to use a car during peak commute hours imposes a higher social cost (for example, delay time) than using the same road at nonpeak hours. Drivers should therefore pay for that additional social cost. Peak-period pricing is already in use in the telephone and utility industries.

- **Distance-based fees,** or charging drivers based on the amount of VMT. The gas tax is a form of distance-based fee. (However, due to the difference in vehicle fuel efficiency, the gas tax is not a very good measure.) The rationale is that people who drive more impose a greater social cost and should therefore pay higher fees. This would provide an incentive for people to use alternative means of transportation or reduce the amount of vehicle trips that they take. One potential method for imposing these charges would be to include odometer checks as part of a vehicle's smog check inspection.

- **Pollution fees,** or charging motorists for their vehicles' emission. One method to implement pollution fees would be to adjust a distance-based fee (such as VMT fees) by a factor based on the car's emissions level. This could induce drivers to both reduce unnecessary trips and purchase and maintain cleaner cars.

Pricing strategies would contribute to reducing air pollution, congestion, or both. Finally, they provide a long-term alternative to reliance on gasoline taxes. For each of these reasons, we also recommend that the Legislature enact pricing strategies as part of any transportation revenue package.

Should Bonds Be Used to Finance Improvements Over Time?

Prior to passage of the *Transportation Blueprint*, the state funded transportation projects on a pay-as-you-go basis, primarily from gas tax and weight fee revenues. Bonds were not used as a mechanism to finance transportation improvements. However, with passage of Propositions 108 and 116 (two general obligation rail bonds) in 1990, the state moved away from the pay-as-you-go method for development of the rail program. As a result, the state has the authority to issue about $3 billion in general obligation bond funds for rail improvements.

The *Blueprint* legislation also scheduled two additional $1 billion bond issues to be put on the ballot. One—Proposition 156—was defeated in November 1992. An additional $1 billion bond measure is scheduled for the November 1994 ballot.

Because transportation capital improvements (for highways, roads, and rail) have long-term benefits stretching over several generations, it is appropriate to rely on bonds to finance these activities. The Legislature can rely on either general obligation bonds backed by the state's General Fund, or revenue bonds with debt service paid by transportation revenues such as the gas tax. However, in the case of general obligation bonds, because the debt service is paid from nontransportation revenues, they do not provide an incentive for people to drive less or during nonpeak periods. This is because the debt service costs do not bear any relationship to the costs individuals face in using their automobile. Consequently, we think that if bonds are used to finance transportation improvements over time, the Legislature should use revenue bonds backed by a combination of transportation revenues. This type of financing was used to construct various bridges where toll collections retired the debt.

Accordingly, we recommend that if bond financing is used, the Legislature not rely on general obligation bonds, but use revenue bonds instead.

MOTOR VEHICLE ACCOUNT CONDITION

Our review indicates that Motor Vehicle Account (MVA) revenues are projected to grow at a relatively low rate in 1993-94. If the projected revenues materialize, the MVA will be balanced. However, continued use of MVA revenues for nontransportation purposes has exerted additional demands on the account. In addition, there are potential significant increases in MVA expenditures in future years. These additional demands on MVA could necessitate future fee increases or program reductions.

The MVA derives most of its revenue from vehicle registration fees and driver license fees. In 1992-93, these fees account for 78 percent ($840 million) and 9.8 percent ($105 million) respectively of the estimated $1.1 billion in MVA revenues. The majority of MVA revenues are used to support the activities of the Department of Motor Vehicles (DMV), the California Highway Patrol (CHP), and the Air Resources Board (ARB).

Low Growth in Revenues Projected

Because of an imbalance between resources and expenditures from the MVA, both vehicle registration and driver license fees were raised statewide beginning January 1992. The increases raised vehicle registration fees by $5 (to $28) and the driver license fee by $2 (to $12). At the higher fees, total MVA revenues in 1992-93 are estimated to increase by about $190 million (or 21 percent) over 1990-91 (the last full year prior to the fee increase) levels. However, the budget projects that in 1993-94, MVA revenues will grow by only $28 million (or 2.6 percent). This low growth is due primarily to the small increase in projected vehicle registrations resulting from a slow down in automobile sales.

Revenue Projections May Still Be Too Optimistic. At this low growth rate, the budget projects total account revenues of $1.1 billion. This will leave a reserve of $37 million at the end of 1993-94, after paying for all proposed expenditures. Our review, however, shows that based on past experience, the revenue projection may still be optimistic. For example, for the three years from 1989-90 to 1991-92, actual MVA revenues were below projected amounts by an average of $36 million per year. Consequently, we conclude that there is a significant downside risk that the account will stay in balance during the budget year.

Budget Continues Trend of Diverting MVA Funds to the General Fund

While revenues are projected to grow at a low rate, additional demands on the MVA continue. Specifically, until recently, the MVA has been used primarily to fund the DMV, CHP, and ARB. However, in 1991-92 and 1992-93, as part of the overall budget solution, a total of $118.5 million in MVA funds was transferred to the General Fund. To accommodate the transfers and to fund all authorized expenditures, the MVA has required a transfer from the State Highway Account totaling $100 million over the two-year period. Without this transfer, the MVA would have ended up with deficits in both years.

For the budget year, the budget proposes to transfer $30 million in MVA revenues generated from the sale of information to the General Fund.

More MVA Support for ARB, Despite Constitutional Limitations

Another increasing draw on the MVA is the support for ARB activities. The ARB provides environmental protection services related to mobile and stationary sources of air pollution. In recent years, MVA's support of the ARB has increased steadily. Currently, about 71 percent of board activities are funded from the MVA. For 1993-94, $74.8 million is requested—an increase of 6.7 percent over current-year MVA expenditures. In our analysis of the ARB, we discuss the constitutional limits regarding the appropriate use of MVA for the support of this agency, and recommend that the costs to regulate stationary source emissions be funded from fees instead of the MVA. Adoption of this recommendation will free up approximately $38.3 million annually from the MVA (please see Item 3900, ARB).

Future Demands on the MVA Might Be Significant

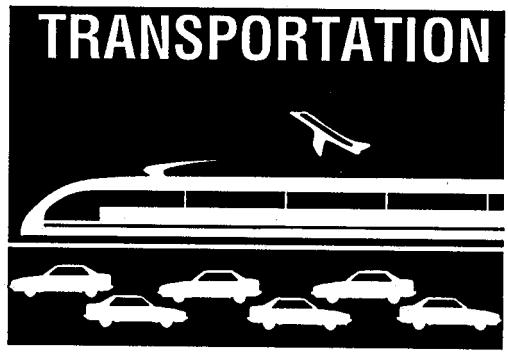
Given the projected slow growth in account revenues, the Legislature will need to monitor the use of MVA funds for nontransportation purposes as well as potential significant increases in MVA expenditures to ensure no future shortfall in the account. Otherwise, funding these demands could necessitate future fee increases or a reduction in DMV or CHP program activities. We discuss two such potential expenditure increases below.

Joint CHP and DMV Headquarters Building Project Will Have Significant Multi-Year Costs. Once again, the budget proposes funding ($4 million) for preliminary plan development for the construction of a

new office building and parking garage for a joint DMV and CHP headquarters. The DMV estimates total project costs at about $356 million. Assuming use of lease-revenue bonds—the department's preferred alternative—this proposal would require an annual payment from the MVA of $39 million over an 18-year period. (Our review of this building request is in the capital outlay section of this *Analysis* at the back of this document.)

CHP Technology Program Will Have Significant Future Costs Beyond 1993-94. The budget requests $8.8 million to implement a variety of communication systems projects. Most of the request is to restore funding for various equipment purchases and installations which have been deferred as a result of the current-year unallocated reduction in the department's expenditures. Our review shows the budget-year request to be reasonable.

In addition, over the next five to seven years beyond 1993-94, CHP plans to implement a Long-Range Infrastructure Systems Plan. This plan contains several components to expand and modernize CHP's communications systems. Implementation of all of these components is expected to cost in the hundreds of millions of dollars. For instance, the most expensive component—replacement of CHP's mobile radio system—is expected to cost in the hundreds of millions of dollars when implemented in 1998 or later. As the CHP requests funds for these components in 1994-95 or later, the Legislature will need to evaluate the merits of these proposals as they relate to the condition of the MVA.



DEPARTMENTAL ISSUES

DEPARTMENT OF TRANSPORTATION (2660)

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

The budget proposes expenditures of $5.4 billion by Caltrans in 1993-94. This is about $537 million, or 9 percent, less than estimated current-year expenditures.

Ten-Year Plan

Implementation of Ten-Year Plan Lags

Planned expenditures through 1993-94 for various transportation elements continue to lag behind the ten-year plan.

As part of the *Transportation Blueprint* legislation of 1990, the Legislature provided a projected $18.5 billion in additional funds over ten years for transportation improvements. These additional funds were due to increases in the gas tax and truck weight fees, as well as increases in bond financing for rail improvements. The Legislature also

established a plan specifying how the additional resources are to be used. Additionally, the Legislative Analyst is required to provide an annual summary of the expenditures proposed for each element of the plan.

Figure 6 compares the ten-year plan to cumulative expenditures from 1990-91 through 1993-94—the fourth year of the plan. The figure also shows the percentage of expenditures to be carried out by the end of 1993-94 for each expenditure element, using the new revenues generated by the *Blueprint* legislation. In total, Caltrans anticipates that, through the budget year, the state would achieve about 27 percent of total expenditures called for in the plan.

Figure 6

Department of Transportation
Ten-Year Plan
Expenditures by Element
1990-91 through 1993-94

(Dollars in Millions)

	Ten-Year Plan	Planned Accomplishments 1990-91 through 1993-94	Total As Percent of Ten-Year Plan
1988 STIP	$3,500	$1,262	36.2%
Intercity, commuter, and urban rail	3,000	1,000	33.3
Flexible congestion relief	3,000	271	9.0
City/county subventions—street, roads, and guideways	3,000	1,085	36.2
State-local partnership	2,000	641	32.1
Interregional road system	1,250	11	8.8
Traffic system management	1,000	116	11.6
Highway maintenance and rehabilitation	1,000	404	40.4
Transit operations and capital outlay	500	101	20.2
Soundwalls	150	13	8.7
Environmental enhancement and mitigation	100	30	30.0
Totals	**$18,500**	**$4,934**	**26.7%**

In addition, for certain elements, including some under the department's control, total expenditures for the first four years are significantly below the average. They also lag behind in terms of their proportionate share of expenditures, if expenditures were spread out evenly over ten years. For instance, less than 10 percent of the total $3 billion designated for flexible congestion relief projects—either highway or transit projects that reduce congestion—will have been expended in these projects through 1993-94. Similarly, expenditures for interregional

road system work and soundwalls are expected to be less than 10 percent of the total designated amounts. In contrast, the department is relatively on target with planned expenditures for highway maintenance and rehabilitation as well as for spending on construction of projects scheduled in the 1988 STIP.

Highway Transportation

Of the total 1993-94 expenditures in the department's budget, $4.9 billion (90 percent) is for the Highway Transportation program. This is a decrease of $77 million, or 1.6 percent, from estimated expenditures in the current year. The budget also proposes to decrease staff for the program by 159 PYs.

Figure 7

Department of Transportation
Highway Transportation
Budget Summary
1991-92 Through 1993-94

(Dollars in Millions)

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Percent Change From 1992-93
Expenditures				
Capital outlay support	$866	$835	$809	-3.1%
Capital outlay projects	1,734	2,525	2,317	-8.2
State-local transportation partnership	199	160	221	38.1
Local assistance	349	536	591	10.3
Program development	40	47	65	38.3
Operations	134	128	138	7.8
Maintenance	706	718	730	1.7
Totals	**$4,028**	**$4,949**	**$4,871**	**-1.6%**
State funds	*$2,007*	*$2,065*	*$2,183*	*5.7%*
Federal funds	*1,484*	*2,007*	*1,932*	*-3.7*
Reimbursements	*537*	*877*	*765*	*-13.8*

As shown in Figure 7, state funds will finance $2.2 billion (45 percent) of the total proposed expenditures, the federal government will fund an additional $1.9 billion (40 percent), and the remaining $756 million (15 percent) will be reimbursed primarily from local (sales tax measures) and private (developer) funds.

Reimbursed Highway Capital Outlay Work Will Decline

Total expenditures on highway capital improvements will be lower in 1993-94 mainly due to a drop in reimbursed local work.

About 48 percent of the proposed expenditures for the highway transportation program—$2.3 billion—will be for capital outlay projects. This is approximately 8.2 percent less than estimated current-year expenditures. Figure 8 summarizes the highway capital outlay expenditures proposed by Caltrans for 1993-94. As the figure shows, reductions in flexible congestion relief, the interregional road system, soundwalls, and traffic systems management will be partially offset by a sizable increase in seismic retrofit work.

Figure 8

Department of Transportation
Highway Capital Outlay Expenditures
1991-92 Through 1993-94

(Dollars in Millions)

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Percent Change From 1992-93
Expenditures				
Flexible congestion relief	$1,148	$1,371	$635	-53.7%
Interregional road system	96	142	92	-35.2
Soundwalls	15	33	20	-39.4
Other highway construction	34	62	92	48.4
Rehabilitation and safety	338	809	915	13.1
Traffic systems management	28	69	37	-46.4
Seismic retrofit	75	39	526	1,248.7
Totals	**$1,734**	**$2,525**	**$2,317**	**-8.2%**
State funds	*$327*	*$316*	*$343*	*8.5%*
Federal funds	*929*	*1,358*	*1,264*	*-6.9*
Toll bridge revenues	*10*	*76*	*70*	*-7.9*
Reimbursements	*468*	*775*	*640*	*-17.4*

Of all highway capital outlay expenditures in 1993-94, $640 million (28 percent) will be reimbursed by local agencies—primarily 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.

For a number of years, reimbursements have been an increasing percentage of the Caltrans' total expenditures for highway capital outlay. However, in 1993-94 reimbursed work is projected to decline by $135 million (17 percent) below the estimated current-year level. According to Caltrans, the primary reason for the projected decline is that, as a result of the recession, less local sales tax revenues are available for highway improvements.

Adjusting for reimbursed expenditures, state and federally funded capital outlay expenditures undertaken by Caltrans are projected to remain virtually the same as current-year estimated levels.

Seismic Retrofit Work Will Concentrate on Multi-Column Bridges

Seismic retrofit of single-column bridges is almost complete. Caltrans' retrofit work in 1993-94 will concentrate on multi-column bridges.

Current law 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 1989 Loma Prieta earthquake.

Current law also directs 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.

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 retrofitting only Category I bridges. (Category II and III bridges will be proposed for retrofit in the future when the investment would be "cost effective.")

Caltrans estimates that retrofit would be required for about 750 Category I single- and multi-column bridges with a total estimated construction cost of about $750 million. It would also have to retrofit

eight toll bridges. Figure 9 summarizes the number of bridges to be retrofitted and the estimated construction costs. In the budget year, the department anticipates expenditures of $526 million in seismic capital outlay projects.

Figure 9

Department of Transportation
Seismic Retrofit Program
Scope and Progress
As of 12/31/92

(Dollars in Millions)

Category / Bridge Type	Number of Bridges	Estimated Construction Costs	Retrofit Completed	Under Contract as of 12/92
Single-column	264	$116	129	114
Multi-column	486	634	5	28
Toll	8	650	—	—
Totals	**758**	**$1,400**	**134**	**142**

Retrofit of Single-Column Bridges Close to Complete. Caltrans expects to be able to complete the single-column retrofit program by December 31, 1993. This schedule is in line with the schedule adopted after the moratorium on Caltrans' hiring of outside consultants was lifted in October 1991. As Figure 9 shows, 243 of the 264 single-column bridges (92 percent) are either complete or currently under contract.

Retrofit of Multi-Column Bridges Has Only Just Started. However, only 33 out of 486 multi-column bridges (6.8 percent) are either complete or under contract at the end of 1992. According to Caltrans, it plans to have all projects designed and ready for construction by the statutory deadline of December 31, 1993. Consequently, Caltrans' seismic retrofit work in 1993-94 will concentrate on the retrofit of multi-column bridges. Based on Caltrans' progress to date in contracting out retrofit projects for multi-column bridges, the department's plan is very optimistic.

Toll Bridges. As of January 1993, Caltrans estimated a cost of $650 million for retrofit of the eight toll bridges and that the projects would be ready for contract by the end of 1994.

Capital Outlay Support Will Be Lower

The budget proposes expenditures of about $809 million for capital outlay support in 1993-94. This is a decrease of about $26 million (3.1

percent) below estimated current-year expenditures. This expenditure level will support a total of 10,129 personnel-year equivalents (PYEs) of work—a decrease of 512 PYEs from the amount estimated in the current year. Capital outlay support staff provide the preliminary engineering, right-of-way acquisition, environmental clearance and technical support services for highway system work.

Figure 10 summarizes the overall staff resources for project development proposed in 1993-94 as compared with 1992-93. It also summarizes Caltrans' planned allocation of staff resources by type of work. For instance, 6,875 PYEs are proposed to do the work for the basic STIP program.

Figure 10

Department of Transportation
Capital Outlay Support Staffing
1991-92 Through 1993-94

(Personnel-Year Equivalents)

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Proposed Change From 1992-93
Sources				
State staff	8,652	8,822	8,534	-288
Cash overtime	520	379	300	-79
Student assistants	262	155	155	—
Engineering contracts	1,248	1,285	1,140	-145
Totals	**10,682**	**10,641**	**10,129**	**-512**
Uses				
Basic STIP program	8,582	7,302	6,875	-427
Pre-STIP	262	419	419	—
Seismic retrofit	—	503	576	73
Regional Measure 1 (Bay Area toll bridges)	—	210	197	-13
Locally funded projects	321	532	532	—
Local tax measure projects	1,235	1,310	1,165	-145
Administrative pro rata	282	365	365	—
Totals	**10,682**	**10,641**	**10,129**	**-512**

Reduced Capital Outlay Support Staff Assumes Efficiencies

The department proposes a 4 percent capital outlay support staff cutback, based on an assumption staff will work more efficiently in 1993-94 and future years. The assumption is not based on data that demonstrate measured productivity gains. To the extent the assumed efficiencies do not materialize, project delivery could suffer. However, we have no analytical basis for recommending against the proposed reduction of $34.6 million and 429 PYEs.

The budget requests a 4.8 percent reduction in capital outlay support staff from the current year. Most of the reduction, 429 PYEs, or 4 percent, is the result of the department's decision to cut back staff to adjust for expected efficiencies. The remaining 83 PYE reduction is due to adjustments for completed workload from one-time budget changes. Caltrans plans for the reductions to be taken through attrition, not through planned cuts.

Department Assumes Increased Efficiencies. According to the department, the reduction assumes that efficiencies will be realized in 1993-94 and future years. The department made this assumption based on a number of factors. First, Caltrans recently began putting engineering staff through a three-day training course on overseeing engineering contracts. The department anticipates that, as a result of the training, less staff time will be needed to oversee consulting engineer contracts. Currently, Caltrans' contract oversight staff cost is about 20 percent of total contracted work. With the training, Caltrans expects the oversight amount to drop from 20 percent to 15 percent—a 25 percent increase in efficiency.

Second, Caltrans assumes that most of its recent hires of 2,200 engineers will work more efficiently because, by 1993-94, they will have two to three years of experience. Third, the department assumes that improvements in various work processes will also enhance employee efficiency. For instance, according to the department, the use of project management practices has improved so that the department is able to better monitor project progress. In addition, the department is delegating more authority for managing projects to the district level, thereby shortening the decisionmaking process. Similarly, the use of computer-aided design and drafting also improves staff efficiency in project design.

Staffing Needs Will Exceed Budgeted Levels If Efficiencies Do Not Materialize. As discussed above, the proposed staff reduction is predicated on efficiencies to be realized. However, Caltrans cannot demonstrate how previous changes in work processes or increases in staff experience have resulted in added productivity. Thus, while we

believe that some efficiencies may materialize, we cannot determine whether the proposed level of capital outlay design and engineering work would in fact be done with 4 percent fewer staff. To the extent part of the efficiencies do not materialize, there could be delays in project delivery and construction.

Projects Not Constructed Due to Lack of Funds

If Caltrans designs and develops all projects scheduled for delivery in 1993-94, an estimated total of $748 million in projects will not be constructed due to the lack of available state and federal funds.

Caltrans develops its requests for capital outlay support staff using several statistical models. These models, in general, apply past workload staffing standards to the budget year's expected workload.

In addition to the 512 PYE reduction for assumed efficiencies and one-time changes, the requested level of 10,129 PYEs also reflects a reduction of 292 PYEs below the staffing level estimated by the statistical models to be needed in 1993-94 to deliver projects and oversee their construction. According to Caltrans, based on the amount of state and federal funds estimated to be available in the budget year, there will not be sufficient funds to construct all the projects programmed in the STIP for 1993-94. As a consequence, Caltrans estimates that the construction of about $748 million in projects will be deferred into 1994-95. Because of the lower construction workload, the staff needed to oversee the construction work will also be less.

No Efficiencies Assumed for Headquarters Staff

We recommend a reduction of $9.6 million and 127 PYEs because Caltrans' proposal does not reflect a corresponding reduction in headquarters staff due to efficiencies and lower workload. (Reduce Item 2660-001-042 by $9.6 million.)

The department's proposed reduction in staff due to efficiencies and a funding shortfall, however, does not include any reductions to the support staff at its headquarters in Sacramento. The budget proposes 1,369 PYEs in 1993-94 for these staff.

Headquarters support staff perform a variety of functions including administrative support (personnel, budget, accounting), audits, construction oversight, and engineering management. Many of these activities are related to the size of the capital outlay support staff and the associated workload. For instance, as total capital outlay staff decreases, administrative support should be correspondingly lower. In

addition, these activities, just as other capital outlay support functions, will be affected by more efficient work processes. For instance, the use of computer-aided designs and other computer automation should increase the efficiency of headquarters staff that prepare contract bid specifications. Similarly, the delegation of authority to the district should reduce the many levels of headquarters review. Further, just as fewer total construction staff will be needed, headquarters' Division of Construction should have less workload if projects are delayed due to a funding shortfall. However, the budget requests essentially the same number of headquarters staff as in the current year. Given the reduction in all other capital outlay staff, the ratio of headquarters functional support staff to other capital outlay staff will actually increase. Instead of 1 functional staff to 7.1 other staff as in the current year (or 1 functional staff to 7.4 other staff in 1991-92), 1 functional staff will provide support to only 6.4 other staff in the budget year.

In our view, the level of staffing for headquarters support ought to be based on workload. Additionally, we see no analytical reason why no efficiencies are expected to be realized in headquarters staff. We think it is reasonable to provide approximately the same proportion of headquarters staff to other capital outlay staff in 1993-94 as in the current year. Staffing headquarters support at that ratio would require 1,242 PYEs in 1993-94—127 PYEs less than requested. Accordingly, we recommend a reduction of 127 PYEs and $9.6 million.

Analyst's Assessment of Project Delivery Performance in 1991-92

In 1991-92, the department delivered 65 percent of the capital outlay projects scheduled specifically for 1991-92. However, total delivery of projects scheduled for various years was worth $1.5 billion, an increase over the previous year. Additionally, Caltrans was able to advance the delivery of projects, totaling $535 million, by at least one month.

Because of concern over project delays, the Legislature has enacted various requirements to encourage the timely delivery of state highway projects. The Legislative Analyst is required to assess annually the department's progress in delivering projects. Our review covers delivery of all three programs: the STIP, the Highway Systems Operation and Protection Plan (HSOPP) and the Traffic Systems Management (TSM) plan. Project delivery is defined in statute as occurring when a project is advertised for construction.

Caltrans Delivered Only 65 Percent of 1991-92 Programmed Projects. In total, the 1990 STIP, HSOPP and TSM scheduled 402 projects with a value of $1.7 billion to be delivered in 1991-92. Our review shows that

the department delivered 260 (65 percent) of these projects worth about $970 million (58 percent). In comparison, the department in 1990-91 delivered 296 (68 percent) of the 435 projects scheduled for delivery in 1990-91, which were worth about $865 million (67 percent).

The department has identified six principal reasons why it was unable to deliver 1991 projects according to 1991 STIP, HSOPP and TSM schedules. They are the same reasons cited in the past. Internal reasons include cost overruns, overly optimistic schedules, contract delays, and diversion of resources for other priority projects. External reasons include delays attributed to other controlling agencies and unforeseen additional environmental work.

Total Project Delivery in 1991-92 Was Worth $1.5 Billion. In addition to delivering projects that were scheduled for 1991-92, the department also delivered in 1991-92 projects delayed from previous years, projects moved forward from future years, and new projects amended into the STIP. These 139 projects had a value of $576 million. Therefore, in total, the department delivered 399 projects worth $1.5 billion.

Compared to 1990-91, Total Project Delivery Has Declined in Number, But Increased in Dollar Value. As indicated in Figure 11, slightly fewer projects were delivered in 1991-92 than in 1990-91. However, the total value of projects delivered increased by $264 million, or 21 percent.

Figure 11

Department of Transportation
Project Delivery
1989-90 Through 1991-92

(Dollars in Millions)

	1989-90	1990-91	1991-92	Percent Change 1990-91 versus 1991-92
Number of STIP-year projects	118	296	260	-12.2%
Dollar value	$343	$865	$970	12.1
Number of total projects	215	410	399	-2.7
Dollar value	$987	$1,282	$1,546	20.6

Delivery Included Acceleration of Projects. In response to a Governor's initiative to get projects out to construction in hopes of creating jobs and stimulating the economy, Caltrans accelerated some projects in 1991-92—that is, delivered projects sooner than scheduled.

Of the 399 projects worth $1.5 billion delivered in 1991-92, 286 projects (totaling $535 million) were delivered at least a month ahead of schedule. Of the accelerated projects, 123 (43 percent) were accelerated by one month and delivered in the same year as scheduled. Another 67 (23 percent) totaling $168 million were accelerated from scheduled delivery in 1992-93.

Proposed Retrofit Activities Premature

We recommend a reduction of $300,000 requested for retrofitting Caltrans' facilities to comply with the Americans With Disabilities Act (ADA). (Reduce Item 2660-001-042 by $300,000.)

The budget requests $300,000 to contract for services to oversee the retrofit of Caltrans-owned buildings and to renegotiate leases of Caltrans-leased buildings in order to comply with ADA requirements. The Office of the State Architect's Access Compliance Section (OSA/ACS) is responsible for developing state building standards for handicapped accessibility. The ACS has recently produced revised building standards intended to conform to the ADA which applies to departments statewide. The proposed regulations are currently pending before the State Building Standards Commission for adoption as part of the California Building Code. Upon adoption, all new buildings will have to conform to these standards. Since ADA will be enforced by the United States Department of Justice, the state's adopted building standards will be forwarded for DOJ certification as meeting the federal government's ADA requirements.

The ADA requires public agencies to deliver programs and provide accommodations for employees in such a way as not to discriminate against individuals with disabilities. This does not require that *existing* state buildings be modified to comply with the revised ADA-related building standards that apply to new buildings. For existing buildings, the OSA has developed and is testing a survey instrument that departments can use to evaluate the accessibility of their buildings. The intent of the survey is to assist departments in determining what, if any, building modifications or program changes should be made in order to provide appropriate access. Caltrans should use the OSA study and determine its needs before requesting staff to begin retrofitting facilities and renegotiating leases. Once it determines its needs, it should come back to the Legislature with a plan for undertaking the work. Consequently, we recommend deletion of the proposed funding request.

Mass Transportation

For 1993-94, the Mass Transportation program will account for approximately 8.7 percent of the department's total expenditures. The budget proposes $471.9 million in program expenditures, which is $451.7 million (49 percent) less than estimated current-year expenditures.

Figure 12 summarizes the Mass Transportation expenditures by program elements. The largest elements of the program are the rail transit capital and the interregional public transportation elements. However, for 1993-94, the budget proposes significant reductions in these two elements. This is because in 1993-94, the amount of bond funds available under Proposition 108 (adopted in 1990) will be depleted. As a result, expenditures of bond funds for activities in these two elements are projected to decrease from $378 million to $137.2 million—a drop of $240.8 million. Additionally, the budget projects that expenditures reimbursed by local governments (primarily from Proposition 116) will decrease by $189.4 million.

Figure 12

Department of Transportation
Mass Transportation Expenditures
1991-92 Through 1993-94

(Dollars in Millions)

	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Percent Change From 1992-93
State and federal mass transit	$1.4	$17.7[a]	$18.1	2.2%
Rail transit capital	528.2	626.1	263.2	-58.0
Interregional public transportation	185.3	228.5	140.3	-38.6
Transfer facilities and services	5.4	3.7	3.7	—
Research	0.3	0.6	0.6	—
Work for others	0.1	1.5	1.5	—
Rideshare	33.8	45.5	44.5	-2.2
Totals	**$754.5**	**$923.6**	**$471.9**	**-48.9%**

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

Transit Capital Improvement Program Should Be Ended

We recommend the enactment of legislation to abolish the Transit Capital Improvement (TCI) program and instead transfer funding to an expanded Flexible Congestion Relief (FCR) program because doing so would (1) increase the state's flexibility to program transit improvement projects for funding and (2) reduce administrative overlap while providing the same level of transit capital funding.

The TCI program includes two components: (1) the Article XIX Guideways Program, funded from the State Highway Account (SHA) for counties that have passed measures allowing SHA funds to be used for fixed guideways (such as rail tracks) and (2) a discretionary grant program funded from the Transportation Planning and Development (TP&D) Account for transit capital outlay purposes. Until 1990, the TCI program was the primary state-funded program providing resources for mass transportation capital outlay improvements.

How Program Works. Currently, the TCI program is an annual program, subject to appropriations from the Legislature. Figure 13 shows the program's funding levels since 1983-84. As indicated in Figure 13, funding varies considerably from year to year. In part, this is because the amount of TP&D funding is determined based on the annual resources in the account, which fluctuate depending on the price of gasoline and the volume of taxable sales.

Figure 13

Department of Transportation
Transit Capital Improvement Program Funding
1983-84 through 1993-94

(In Millions)

Year	State Highway Account	TP & D Account	Total
1983-84	$60.7	$40.4	$101.1
1984-85	64.9	42.1	107.0
1985-86	79.5	19.8	99.3
1986-87	31.9	11.4	43.3
1987-88	31.9	13.0	44.9
1988-89	64.0	30.1	94.1
1989-90	64.0	44.6	108.6
1990-91	64.0	39.5	103.5
1991-92	64.0	51.4	115.4
1992-93 (est.)	64.0	30.5	94.5
1993-94 (prop.)	40.0	87.5	127.5

TCI funding is available for projects in the following categories:

- Railroad rights-of-way acquisition.
- Bus rehabilitation.
- Mass transit guideways and rolling stock.
- Transfer stations serving various transportation modes.
- Ferry vessels and terminals.
- Grade separations.
- Short-line railroad rehabilitation.

Caltrans and other public entities may apply for project grants. However, transit operators are frequently the grant applicants. Caltrans evaluates the applications in accordance with criteria established by the California Transportation Commission (CTC) and recommends a priority list of projects for funding annually. Based on the project priority list subsequently adopted by the CTC, funds are allocated throughout the year.

Significantly More Funds Now Available For Rail Transit Projects. Several significant recent changes have occurred in the state's funding of transit capital outlay, such that the TCI program is now only a relatively small portion of the total transit capital funding available from the state. In particular, voters approved two rail bond initiatives in 1990—Propositions 108 and 116—providing about $3 billion for rail and other transit improvements statewide.

In addition, the *Transportation Blueprint* legislation created a new Flexible Congestion Relief (FCR) program with a total funding commitment of $3 billion from gasoline tax revenues over ten years (through 1999-2000). This program provides funding for rail, highway, or local street projects, as long as the project helps to reduce or avoid congestion on existing routes by increasing the transportation system's capacity. All FCR projects are programmed over seven years through the STIP process.

As a consequence of Propositions 108 and 116 and the *Transportation Blueprint*, up to $6 billion in state funds will be available for rail and transit capital improvements over a ten-year period.

Why Reexamine TCI? There are several reasons for reexamining the TCI program at this time. First, with additional funding now available for transit capital outlay projects, the need for a *separate* TCI program is questionable, particularly since many projects eligible for TCI funding may also be funded with FCR or rail bond funds.

Second, the structure of the TCI program—an annual grants process—is not consistent with the multi-year approach of planning and programming state transportation capital outlay projects. It also does not allow sufficient lead time for applicants to prepare financial plans and delivery schedules for projects programmed only 12 months in the future.

Third, the TCI program is cumbersome to administer and workload may be duplicative of other programs. Caltrans must solicit, review and approve applications on an annual basis. This entails a workload cost which, at the time this *Analysis* was prepared, Caltrans was not able to estimate. A portion of this cost is duplicative of the cost and workload to review applications for bond funds. In addition, the CTC must ensure that statutory geographic formulas that apply exclusively to the TCI program are met. Given the size of the program, it is often difficult to fund entire projects and meet these fund allocation requirements at the same time.

Options for Changing the TCI Program. The Legislature has several options to restructure the TCI program in order to streamline program configurations, increase the ease of program administration, and still provide transit funding assistance. These options include:

- Abolishing TCI and dedicating the funding instead to expand the FCR program.
- Modifying TCI to provide funding for transit needs not currently eligible for FCR or rail bond funds.
- Programming TCI on a multi-year rather than an annual basis.

Option 1: Abolish TCI and Expand Funding of the FCR Program. There are several benefits to this approach. First, it relieves Caltrans from having to administer an annual program that must comply with restrictive geographic fund allocation formulas. Instead, projects would be programmed over a multi-year period.

Second, regional project prioritization would be enhanced. This is because regional transportation planning agencies currently set project priorities for the STIP, including FCR projects, but not for TCI projects. Consolidating the TCI and FCR programs would ensure that overall regional priorities are considered in a consistent manner, rather than relying on local transit operators to set funding priorities separately for the TCI program.

Finally, by including TP&D funds in the FCR program, the state will increase its opportunities to match federal dollars. Currently, under the Intermodal Surface Transportation and Efficiency Act, some federal

funds can be used for transit projects. However, because of state constitutional restrictions, SHA funds cannot be used to match these federal funds. For example, SHA funds cannot be used to match federal funds available for purchase of buses or rolling stock. If TP&D funds were included within the FCR program, the state could increase its fiscal flexibility by being able to match federal funds for transit projects.

While the advantages of consolidating the TCI and FCR programs are numerous, one result of abolishing the TCI program would be that the state would no longer have a means of funding emergency transit capital outlay needs. To address this problem, a certain amount of funding could be set aside under the FCR program for programming on an as-needed basis. This is similar to what the CTC currently does with the highways minor capital outlay program.

Option 2: Modify TCI to Address Additional Transit Needs Not Eligible for FCR or Rail Bond Funds. A second option available to the Legislature is to modify the TCI program to enable it to better address current transit needs. For example, the Legislature may want to target the TP&D funds only to bus systems in order to enhance them as an integral part of public mass transit systems. Currently, TP&D funds can be used for the same type of projects as FCR or rail bond funds, except that TP&D funds can also be used for bus rehabilitations, construction of bus terminals, and short-line railroad rehabilitations.

Alternatively, the Legislature might consider making the TP&D funds available for transit operating costs—essentially expanding the existing funding of State Transportation Assistance programs. Statewide, transit operating revenues have declined because of the economy. However, operating expenses are expected to increase dramatically in the future due to requirements of the Americans With Disabilities Act, the California Clean Air Act, and additional expansion of rail systems. The state has a vested interest in ensuring that systems constructed in part with state capital funds continue to be operated. Providing additional operating assistance funds with TP&D funds may meet a need that cannot be addressed with FCR or rail bond funds.

However, targeting TP&D funds to transit needs that are not eligible for FCR or rail bond funds would result in a shift of funds away from some projects which currently can get TCI funds.

Option 3: Change TCI to a Multi-Year Program. A third option is to simply change TCI from a single to a multi-year program. For example, projects could be programmed over five years, as is currently done for the HSOPP. This would enable the CTC to program TCI projects at the same time that it programs other STIP projects, thus reducing Caltrans' and CTC's workload. This option also avoids the need to meet

restrictive fund allocation requirements on an annual basis. In addition, it is less cumbersome on applicants, because they will be able to prepare financial plans and delivery schedules for projects programmed on a longer timeframe. However, this option would maintain the current structure of three separate programs for rail capital improvements.

Analyst's Recommendation. We recommend that the Legislature enact legislation to abolish the current TCI program. We further recommend that funding for the program be consolidated with the FCR program. This is because consolidating the two programs increases Caltrans' flexibility without reducing the overall amount of funding available for transit capital outlay. In addition, it eliminates the significant problems of meeting annual statutory fund allocation requirements as well as the administration of an annual grants program. In addition, we recommend that Caltrans and the CTC be directed to establish a means of setting aside some funds to pay for emergency transit capital outlay needs. This program should be modeled on the highways minor capital outlay program.

High-Speed Rail Study Goes Beyond Legislative Direction

We recommend a reduction of $4.2 million and 3.5 personnel-years (PYs) for a high-speed ground transportation study, because the scope of the proposed study goes beyond current legislative direction. (This would leave Caltrans with 4.5 PYs and $222,000 to undertake other aspects of the study.) We also recommend the enactment of legislation to set out policy and programmatic guidelines for the development of high-speed rail in California and to create a committee of experts to assist Caltrans with future high-speed rail development. (Reduce Item 2660-001-042 by $4.2 million.)

Budget Proposal. The budget requests $4.5 million and eight PYs for Caltrans to contract for environmental analysis, preliminary engineering, and feasibility studies for development of a high-speed rail system between Los Angeles and the San Francisco Bay Area. The total cost of the study is projected to be $9 million over two years. The purpose of the study is to enable Caltrans to be in the position to award a franchise for operation of a high-speed rail system on this corridor by the year 2000.

Development of high-speed rail in California has been a high priority for both the Legislature and Caltrans. Under Ch 1104/90 (SB 1307, Garamendi), Caltrans was required to (1) develop a work plan and (2) contract for a feasibility study for development of a publicly or privately operated high-speed ground transportation system in

California. Among the issues to be studied were surveys of existing and new technologies, potential environmental and economic impacts, the appropriate administrative structure for operating the system, financing alternatives, and a corridor prioritization plan.

Caltrans completed the SB 1307 work plan and requested $4.6 million over two years to carry out the feasibility study, beginning in 1992-93. The Legislature did not take issue with the scope of the proposed study, and funding was provided in AB 1600 (Costa). This legislation was subsequently vetoed by the Governor.

Instead of requesting funds for a similar study in 1993-94, Caltrans is now proposing a change in the scope of the study—one that focuses specifically on development of the Los Angeles-San Francisco corridor. The cost of the revised study is estimated at $9 million over two years. We have several concerns with Caltrans' proposal.

Scope Change Goes Beyond Existing Legislative Direction. The most recent legislative direction on high-speed rail, SB 1307, requires Caltrans to examine development of high-speed rail statewide, as opposed to on one specific corridor. Caltrans maintains that the SB 1307 study was too broad and would not provide useful information for implementing an actual project in a timely manner. Consequently, Caltrans has made the decision, *without legislative input,* to focus exclusively on development of the Los Angeles-San Francisco corridor.

Caltrans has provided very little detail on the actual work to be performed or the reasons for the study's high cost. Without this information, it is difficult for the Legislature to determine whether a study that focuses on only one corridor is consistent with the Legislature's priorities at this time. Additionally, without further details on the scope of the study, it will be unable to hold Caltrans accountable for the final product.

High-Speed Rail Program Needs Additional Oversight. Moreover, Caltrans currently lacks the *institutional* knowledge to provide guidance and ensure that the proposed study eventually provides useful information. For example, in its proposal, Caltrans states that its experience in high-speed ground transportation planning, design, construction, and operation is "limited and theoretical," and "currently available on a very limited basis within the department."

For Caltrans to proceed to develop a high-speed rail program in an orderly manner, we think the Legislature should express its priorities and provide overall policy and programmatic guidelines statutorily. In addition, guidance from a committee of experts with experience in many of the relevant subject areas, including finance, technology, and

rail operations, would enhance Caltrans' technical ability to develop and implement such a program.

Recommendation. Because the Legislature has not approved a study focusing on this specific corridor, we recommend that funding for the study be limited to only those topics that will enhance the state's ability to develop high-speed rail in the future, irrespective of location. We recommend, therefore, that funding be provided for research on the following study topics, which are consistent with the directions of SB 1307:

- Evaluation of the institutional and legal issues related to the high-speed rail industry.
- Assessment of the economic impacts resulting from implementation of high-speed rail.
- Public and private financing options.
- Ridership demand/market analysis acceptable to the banking and investment community.

While the above research will still have a Los Angeles-San Francisco focus, we think that the research findings will have general applicability to the implementation of high-speed rail in other corridors throughout the state.

In addition, we recommend that the Legislature delete funding proposed for preliminary engineering and environmental analysis of the Los Angeles-San Francisco corridor at this time. This work does *not* provide information of general use in developing high-speed rail policies and would not be of value if the Legislature subsequently decides to make development of a different corridor a higher priority.

According to the department, all of the funds requested for consultant contracts—$4 million—are to be used for the preliminary engineering and environmental analysis. In addition, 3.5 of the 8 PYs are requested for oversight of this engineering and environmental work, at an estimated cost of $173,000. We, therefore, recommend deletion of $4.2 million under Item 2660-001-042. This would leave Caltrans with $222,000 and 4.5 PYs to carry out the other components of the study in the budget year.

In addition, we recommend the enactment of legislation setting out guidelines for a high-speed rail policy and program for Caltrans to pursue. The legislation should also establish a committee of experts with diverse backgrounds to assist Caltrans in developing the future high-speed rail program.

DEPARTMENT OF MOTOR VEHICLES (2740)

The Department of Motor Vehicles (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.

The budget proposes total expenditures of $517 million for support of DMV in 1993-94. This is an increase of $30.7 million, or 6.3 percent, above estimated current year expenditures.

Credit Card Program's Costs Outweigh Benefits

We recommend a reduction of $534,000 for DMV to offer telephone credit card service because the department has failed to demonstrate that the program is cost-effective. (Reduce Item 2740-001-054 by $401,000 and Item 2740-001-044 by $133,000.)

Currently, DMV has redirected funds to allow four of its telephone service centers to accept payment of fees by credit card. The DMV proposes to expand this option to a total of 11 of its telephone service centers by the end of 1993-94. The budget requests $534,000 to fund the credit card program at all 11 centers.

The DMV projects that the program will result in a total of 130,000 credit card transactions in 1993-94, collecting total revenues of $29 million. (However, most if not all of these revenues would be collected by other means if the credit card option did not exist.) The program is expected to cost the department $534,000. This is because credit card companies currently charge DMV a 1.8 percent fee on all collected revenues and DMV is prohibited (by contractual agreements governing credit card operations) from passing these costs along to its customers.

The department estimates program benefits at about $101,000 in 1993-94, or $433,000 less than costs. Projected benefits include:

- Increased interest earnings due to less "float" time ($50,000).
- Elimination of dishonored checks ($35,000).
- Savings on bank fees ($16,000).

The DMV also expects to achieve savings from reductions in the number of visits to field offices and increased compliance. The DMV expects that more customers will be willing to pay their fees if they can use an installment method, which a credit card makes possible.

However, no data has been provided on the estimated savings from either the reduced field office visits or increased compliance.

Without further information, the program's costs appear to outweigh the benefits by about $433,000. According to DMV, a credit card company is currently conducting a study—to be completed in August 1993—to determine whether a credit card program can indeed be cost-effective for the state to implement. The study will project all expected benefits, as well as the number of transactions necessary for the program to break even.

Recommendation. Given the current lack of data and the program's high cost in relation to expected benefits, we recommend that the Legislature not approve the request for $534,000. Enough data should be available from current-year operations to enable the study to be completed in August. If DMV chooses to continue the program before the study has been completed and reviewed, it can continue to redirect its own funds.

We also recommend that if the study eventually finds the program to be cost-beneficial, the department undertake a long-range implementation plan, rather than the current piecemeal approach, before moving ahead with a credit card program.

Accordingly, we recommend a reduction of $401,000 in Item 2740-001-054 and $133,000 in Item 2740-001-044.

Funds for Collection Contract Should Be Restricted

We recommend the adoption of Budget Bill language restricting the use of $5.3 million in fees ($3.5 million in Item 2740-001-054 and $1.8 million in Item 2740-001-044) for a collection contract.

In the current year, the Legislature authorized DMV to enter into a contract with a collection agency, to aid in collecting fees from delinquent vehicle accounts (primarily, delinquent vehicle registration). According to DMV, a contract was signed in December 1992, with the contractor to receive a fee equaling 21.9 percent of the total revenues collected. For the current year, the DMV expects the program to bring in about $8 million, with the contractor receiving about $1.8 million.

Budget Requests Appropriation. For 1993-94, the DMV expects the program to collect total revenues of about $24.2 million. Based on this amount, the contractor would receive $5.3 million. Accordingly, the DMV requests a $5.3 million appropriation to cover contractor costs in the budget year.

We do not take issue with the proposed appropriation. However, because DMV had no experience with the program at the time the budget proposal was prepared, the revenue estimates may be too optimistic. If actual revenues come in below DMV's estimate, the Legislature would be over-appropriating funds which DMV could then use for other purposes. Consequently, we recommend that the Legislature adopt the following Budget Bill language (in Item 2740-001-054 and Item 2740-001-044) restricting a total of $5.3 million to pay only those costs associated with the contract fees:

> Of the amount appropriated in this item, $3.5 million in Item 2740-001-054 (and $1.8 million in Item 2740-001-044) may be used only to pay fees owed to a contractor pursuant to the contract for collection of delinquent fees. Any amounts not needed for this purpose shall revert as of June 30, 1994.

Proposed Retrofit Activities Premature

We recommend a reduction of $154,000 and 2.8 personnel-years (PYs) for retrofitting DMV facilities to comply with the Americans With Disabilities Act (ADA). (Reduce Item 2740-001-044 by $95,000 and Item 2740-001-054 by $59,000.)

The budget requests 2.8 PYs to oversee the retrofit of DMV-owned buildings and to renegotiate leases of DMV-leased buildings to comply with ADA requirements. The Office of the State Architect's Access Compliance Section (OSA/ACS) is responsible for developing state building standards for handicapped accessibility. The ACS has recently produced revised building standards intended to conform to the ADA, which applies to departments statewide. The proposed regulations are currently pending before the State Building Standards Commission for adoption as part of the California Building Code. Upon adoption, all new buildings will have to conform to these standards. Since ADA will be enforced by the United States Department of Justice, the state's adopted building standards will be forwarded for DOJ certification as meeting the federal government's ADA requirements.

The ADA requires public agencies to deliver programs and provide accommodations for employees in such a way as not to discriminate against individuals with disabilities. This does not require that *existing* state buildings be modified to comply with the revised ADA-related building standards that apply to new buildings. For existing buildings, the OSA has developed and is testing a survey instrument that departments can use to evaluate the accessibility of their buildings. The intent of the survey is to assist departments in determining what, if any, building modifications or program changes should be made in order to

provide appropriate access. The DMV should use the OSA study and determine its needs before requesting staff to begin retrofitting facilities and renegotiating leases. Once it determines its needs, it should come back to the Legislature with a plan for undertaking the work. Consequently, we recommend deletion of the proposed funding request.

LIST OF FINDINGS AND RECOMMENDATIONS

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requirements of a new federal program, the state will have to shift funds from STIP projects to other projects in order to meet federal requirements, leaving the STIP underfunded by up to $200 million.

6. **Significant Transportation Funding Gap Exists.** The 1992 STIP is underfunded by about $4.1 billion. This gap could be larger if state resources continue to be used for other purposes. In addition, the availability of $1 billion in rail bonds from the 1994 election is not certain. 18

7. **Options to Close Funding Gap.** The Legislature has several options to deal with the $4.1 billion funding gap. These options include: reducing the 1992 STIP, extending the 1992 STIP program over a longer period, or by raising additional funds. Of these options, we recommend enactment of legislation to raise revenues with a delayed operative date that corresponds to when funds are needed. 18

8. **Transportation Revenues Should Rely on User Fees.** Recommend that the Legislature rely on increases in gasoline taxes, higher bridge tolls, and other pricing strategies to raise revenues. Further recommend that if bond financing is used to fund capital improvements, the Legislature not rely on general obligation bonds but instead, use revenue bonds which would be backed by transportation revenues. 21

Motor Vehicle Account Condition

9. **Motor Vehicle Account (MVA) Will Be Balanced in 1993-94.** MVA revenues are projected to grow at a relatively low rate in 1993-94. If the projected revenues materialize, the account will be balanced. However, continued use of MVA revenues for nontransportation purposes has exerted additional demands on the account. In addition, there are potential significant increases in future-year expenditures. 25

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Department of Transportation