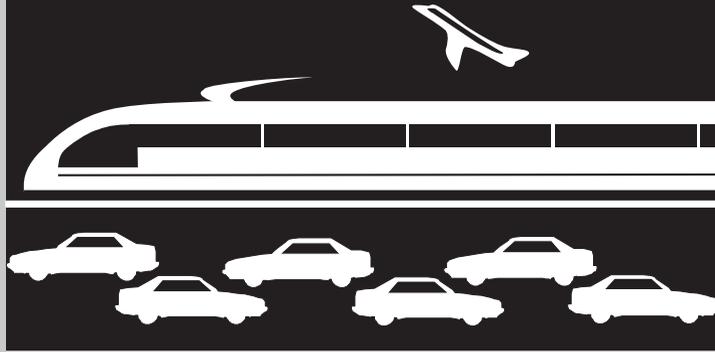


TRANSPORTATION



LAO 
60 YEARS OF SERVICE
2002-03 Analysis

MAJOR ISSUES

Transportation



Additional Transportation Funds Available to Loan to General Fund

- The budget proposes to loan \$672 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund, and to shift other transportation funds in order to prevent a shortfall in TCRF. We find that TCRF expenditures will likely be lower than projected. We recommend budget bill language to (1) allow a larger TCRF transfer to the General Fund if necessary, and (2) limit the transfer of State Highway Account (SHA) funds to TCRF (see page A-15).



SHA Balance Likely To Be Much Higher Than Projected

- The budget projects a 2002-03 SHA cash balance of \$84 million, due in part to a large increase in projected capital outlay expenditures. However, over the past seven years, the Department of Transportation (Caltrans) has consistently overestimated capital outlay expenditures. We find it unlikely that capital outlay expenditures will grow at the projected rate, and therefore the SHA balance could be hundreds of millions of dollars higher than the budget projects (see page A-17 and A-43).



Public Transportation Account (PTA) Shortfall Can Be Avoided

- Lower gasoline prices and declining diesel fuel sales have combined to substantially reduce projected PTA revenues. A recent tax regulation would further reduce revenues and cause a shortfall in the account in 2002-03. We recommend that a planned loan of \$100 million from PTA to the TCRF be

reduced in order to avoid the projected shortfall (see page A-22 through A-25).



Ongoing Funding for Stormwater Management Needs Justification

- The budget requests \$23.4 million for Caltrans to manage stormwater runoff. We find that several aspects of the proposal are either not adequately justified or do not have workload estimates to justify ongoing funding at this time. We recommend deletion of \$838,000. We further recommend that \$13.5 million of the request be granted on a one-time basis until Caltrans can provide better workload justification (see page A-47).



New Funding System Needed For Ongoing Security Programs

- Increased costs for security activities will result in a Motor Vehicle Account (MVA) shortfall in the budget year unless corrective actions are taken. We find the MVA is not appropriate as the sole fund source for ongoing protective services. We recommend a new system for funding ongoing security costs that combines MVA with General Fund and reimbursements (see page A-26 through A-31).



Antiterrorism Programs Not Fully Developed

- The administration expects to receive \$350 million in federal funds for antiterrorism security activities, but the budget allocates only \$164 million for specific security measures. We withhold recommendation on \$89.6 million requested for the California Highway Patrol until the levels of federal reimbursement are better known in the spring. We also recommend development of an expenditure plan that sets priorities for the use of the remaining \$176 million in anticipated additional federal funds (see page A-32 through A-39).

TABLE OF CONTENTS

Transportation

Overview	A-7
Expenditure Proposal and Trends	A-7
Spending by Major Program	A-8
Major Budget Changes	A-10
Crosscutting Issues	A-13
Condition of Transportation Funds	A-13
Motor Vehicle Account Condition	A-26
Enhanced Security Antiterrorism Programs	A-32
Departmental Issues	A-41
Department of Transportation (2660)	A-41
Findings and Recommendations	A-63

OVERVIEW

Transportation

T*otal state-funded expenditures for transportation programs are proposed to be substantially higher, by 9.4 percent, in 2002-03 than estimated current-year expenditures. The increase is due primarily to significantly higher expenditures projected for state highways and local transportation projects (as scheduled in the State Transportation Improvement Program and the Traffic Congestion Relief Program) and for seismic retrofit of state-owned toll bridges.*

For traffic enforcement, the budget proposes increases primarily in the expenditure level of the California Highway Patrol in order to enhance the state's security activities.

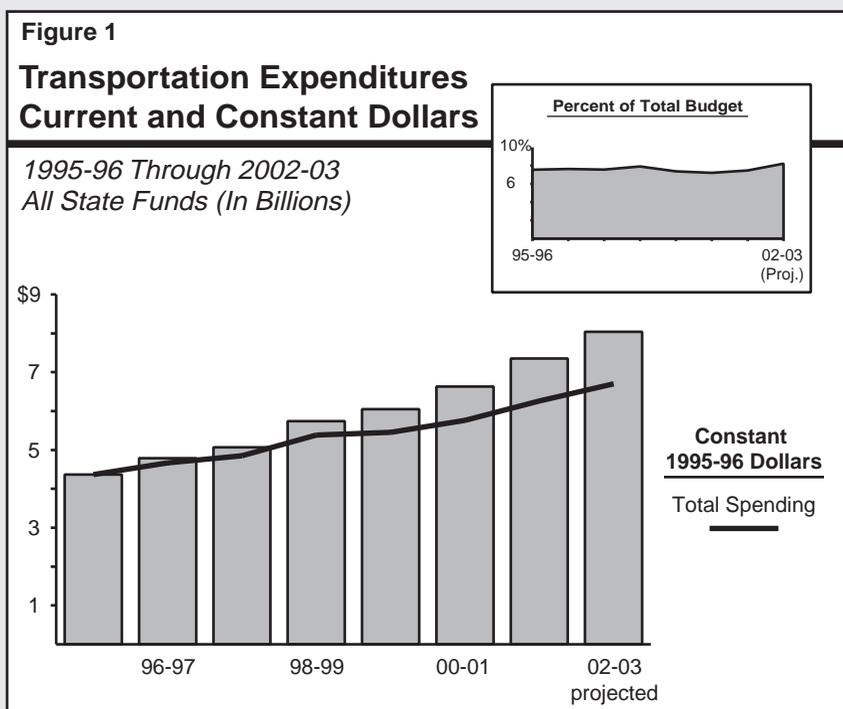
EXPENDITURE PROPOSAL AND TRENDS

The budget proposes total state expenditures of about \$8 billion for all transportation programs and departments under the Business, Transportation and Housing Agency in 2002-03. This is an increase of \$692 million, or 9.4 percent, over estimated expenditures in the current year.

Figure 1 shows that state-funded transportation expenditures increased by about \$3.7 billion since 1995-96, representing an average annual increase of 9.1 percent. When adjusted for inflation, these expenditures increased by an average of 6.3 percent annually. The increase is mainly the result of the significant increase in expenditures under the Traffic Congestion Relief Program (TCRP) enacted in 2000-01 and projected higher state-funded expenditures for highway transportation improvements contained in the State Transportation Improvement Program (STIP). The TCRP provided \$1.6 billion from the General Fund in 2000-01 for a number of specific projects to be constructed over a number of years. In addition, in March 1996, the voters passed Proposition 192 which authorized \$2 billion in bonds for seismic retrofit of highways and bridges. In August 1997 and subsequently in September 2001, the Legislature further enacted legislation to fund seismic retrofit of state-owned toll bridges.

Figure 1 also shows that transportation expenditures as a share of state expenditures have remained relatively stable since 1995-96. In 2002-03, proposed transportation expenditures will constitute about 8.2 percent of all state expenditures.

Of the 2002-03 state transportation expenditures, about \$6.6 billion is proposed for programs administered by the state, and \$1.1 billion is for subventions to local governments for streets and roads. Another \$339 million will be for debt-service payments on rail bonds issued under Propositions 108 and 116 of 1990, and seismic retrofit bonds issued under Proposition 192 of 1996.



SPENDING BY MAJOR PROGRAM

Figure 2 shows spending for the major transportation programs in detail. Specifically, the budget proposes expenditures of about \$9 billion (from all fund sources including federal and bond funds) for the Department of Transportation (Caltrans) in 2002-03—an increase of \$1.2 billion (15 percent) above estimated current-year expenditures. The higher expenditure level reflects projected increases of about \$1.3 billion in state

and federal funds for highway construction and local road improvements, offset by a drop of about \$121 million in reimbursed expenditures.

Figure 2					
Transportation Budget Summary					
Selected Funding Sources					
<i>2000-01 Through 2002-03</i>					
<i>(Dollars in Millions)</i>					
	Actual	Estimated	Proposed	Change From	
	2000-01	2001-02	2002-03	2001-02	
				Amount	Percent
Department of Transportation					
State funds	\$4,100.0	\$4,438.6	\$5,084.2	\$645.6	14.5%
Federal funds	3,434.9	2,913.1	3,556.4	643.3	22.1
Reimbursements	406.8	467.0	346.4	-120.6	-25.8
Totals	\$7,941.7	\$7,818.7	\$8,987.0	\$1,168.3	14.9%
California Highway Patrol					
Motor Vehicle Account	\$864.9	\$932.0	\$1,082.5	\$150.5	16.1%
Other	100.5	146.5	108.8	-37.7	-25.7
Totals	\$965.4	\$1,078.5	\$1,191.3	\$112.8	10.5%
Department of Motor Vehicles					
Motor Vehicle Account	\$341.2	\$348.6	\$343.3	-\$5.3	-1.5%
Motor Vehicle License Fee Account	255.1	272.6	263.3	-9.3	-3.4
Other	74.5	66.0	60.1	-5.9	-8.5
Totals	\$670.8	\$687.2	\$666.7	-\$20.5	-3.0%
State Transportation Assistance					
Public Transportation Account	\$115.9	\$171.0	\$115.3	-\$55.7	-32.6%

Spending for the California Highway Patrol (CHP) is proposed at \$1.2 billion—\$112.8 million, or 10 percent, higher than the current-year level. Most of the expenditures, about 91 percent, would come from the Motor Vehicle Account. The budget, however, anticipates that about \$90 million of these expenditures would subsequently be reimbursed by federal funds available for homeland security enhancements.

For the Department of Motor Vehicles (DMV), the budget proposes expenditures of \$666.7 million, \$20.5 million (3 percent) less than in the

current year. These expenditures would be mainly from the Motor Vehicle Account and vehicle license fees.

Additionally, the budget proposes to fund the State Transportation Assistance program in 2002-03 at \$115.3 million, which is \$55.7 million (or 33 percent) less than the current-year level. The proposed amount is determined based on a statutory formula, and it depends on anticipated revenues into the Public Transportation Account. The budget-year drop in funding level occurs because in the current year the program has been provided, on a one-time basis, \$53.3 million more than the amount called for by the statutory formula.

In addition, the budget proposes a loan of \$672 million from transportation funds to the General Fund for nontransportation purposes.

MAJOR BUDGET CHANGES

Figure 3 highlights the major changes proposed for 2002-03 in various transportation programs.

As the figure shows, the budget proposes to increase highway construction by Caltrans by \$1.3 billion. The bulk of the increase is related to the delivery of the STIP, projects in the TCRP, and seismic retrofit of state-owned toll bridges. The budget also proposes an additional \$171 million in federal funds for various designated local transportation projects. In total, the budget proposes \$3.7 billion in transportation capital outlay expenditures and \$2.2 billion for local transportation improvements.

The budget does not propose any increase in highway engineering and design support. However, the funding level may be changed in May when Caltrans is better able to estimate total design and engineering workload to deliver the STIP.

In addition, the budget proposes \$77 million to integrate the various information technology systems in the department. It also proposes \$23 million for Caltrans to implement a stormwater runoff management plan and to comply with the federal Clean Water Act.

For CHP, the budget proposes \$89.6 million to increase the number of officers, pay for staff overtime, acquire aircraft and various equipment in order to provide a higher level of security and protection for state facilities and employees. These expenditures will come from the Motor Vehicle Account (MVA). The administration expects the expenditures to subsequently be reimbursed by federal funds.

Figure 3
Transportation Programs
Proposed Major Changes for 2002-03

Department of Transportation	Requested: \$9.0 billion	
	Increase: \$1.2 billion	(+14.9%)

- + \$1.3 billion in highway capital improvements
- + \$171 million in federal funds for specified local projects
- + \$77 million to integrate information technology systems
- + \$23 million to manage stormwater runoff

California Highway Patrol	Requested: \$1.2 billion	
	Increase: \$112.8 million	(+10.5%)

- + \$89.6 million to enhance security against terrorist acts
 - + \$18.1 million for higher employee retirement costs
 - + \$11.9 million for higher workers' compensation costs
-
- \$8.5 million in various Motor Vehicle Account expenditures

Department of Motor Vehicles	Requested: \$666.7 million	
	Decrease: \$20.5 million	(-3%)

- + \$10.5 million for higher employee retirement costs
 - + \$5 million for higher workers' compensation costs
-
- \$13.4 million for various operating expenses and equipment
 - \$3.7 million for various program savings

For both CHP and DMV, the budget proposes funding increases to pay for higher employee retirement costs as well as workers' compensation costs.

In order to accommodate the various proposed increases in MVA expenditures, the budget also proposes reductions totaling \$29.8 million in order to avoid a funding shortfall. These reductions include: (1) a reduc-

tion of \$10.8 million for various MVA-funded operating expenses and equipment purchases, (2) a drop of \$10.5 million in Air Resources Board support and subvention to local air quality management districts, and (3) a reduction of \$8.5 million for CHP equipment and vehicle replacement and operating expenses.

CROSSCUTTING ISSUES

Transportation

CONDITION OF TRANSPORTATION FUNDS

California's state transportation programs are funded by a variety of sources, including special funds, federal funds, and general obligation bonds for transportation. Two special funds—the State Highway Account (SHA) and the Public Transportation Account (PTA)—have traditionally provided the majority of ongoing state revenues for transportation. Additionally, in 2000, the Legislature enacted the Traffic Congestion Relief Program (TCRP), which created a six-year funding plan for state and local transportation needs, later extended to eight years by Chapter 113, Statutes of 2001 (AB 438, Committee on Budget). The program is funded by two fund sources—the Traffic Congestion Relief Fund (TCRF) and the Transportation Investment Fund (TIF)—from a combination of General Fund revenues (one-time) and ongoing revenues from the sales tax on gasoline beginning in 2003-04.

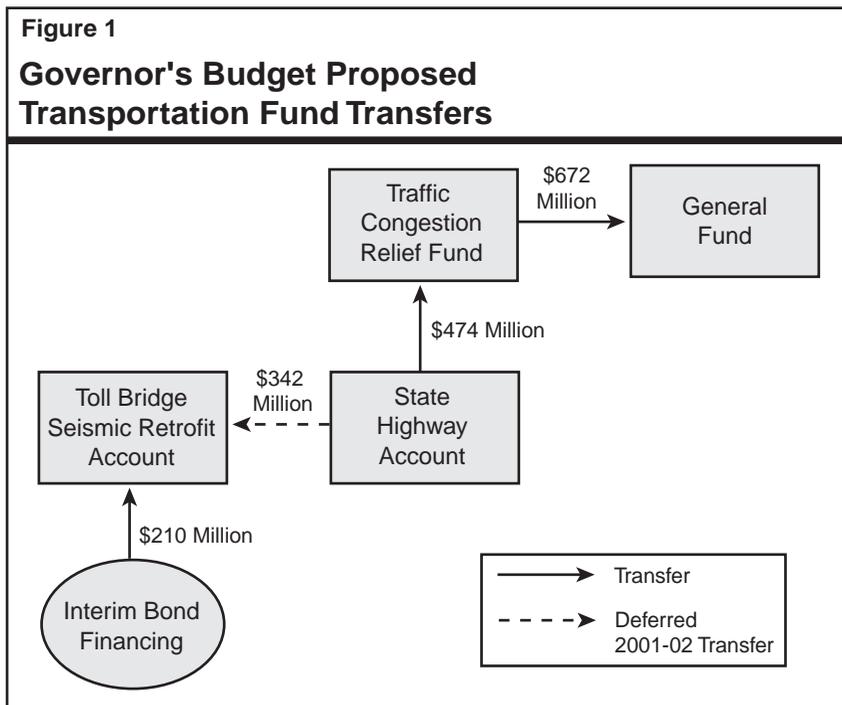
In this section, we first discuss the budget proposal to loan TCRF money to the General Fund and the impact the proposal would have on transportation funds. We then discuss the status of funding for toll bridge seismic retrofit. Finally, we review the condition of the PTA.

TRANSPORTATION LOAN PROPOSAL

Substantial Transportation Funds to Be Loaned to the General Fund

The budget proposes loaning \$672 million from the Traffic Congestion Relief Fund (TCRF) to the General Fund. The budget proposes shifting other transportation funds in order to prevent a fund shortfall in TCRF.

The TCRF to Loan Money to General Fund, Backfilled by SHA. The budget proposes to loan \$672 million from TCRF to the General Fund. This amount is in addition to the \$238 million transferred in the current year. In order that the proposed loan would not negatively affect the delivery of transportation projects in 2002-03, the Governor's budget proposes a number of transportation funding shifts, as detailed in Figure 1. As Figure 1 shows, the budget proposes to backfill most of the TCRF loan with a transfer of \$474 million from SHA.



The SHA Contribution to Toll Bridge Seismic Retrofit to Be Deferred. The SHA is the state's main fund source for highway maintenance and construction. Current law also requires SHA to provide a total of at least \$745 million for the seismic retrofit of state-owned toll bridges. The Department of Transportation (Caltrans) estimates that a total of \$795 million would be transferred for this purpose, and the current-year budget approved a transfer of \$342 million to meet part of that requirement. In order to accommodate the SHA loan to TCRF, the budget proposes not to make this current-year transfer to the Toll Bridge Seismic Retrofit Account (TBSRA). Caltrans indicates that it now intends to delay the transfer of SHA funds to TBSRA as long as possible to ensure that SHA's cash-flow needs are met.

Toll Bridge Seismic Retrofit Shortfall to Be Filled With Loan. Seismic retrofit of state-owned toll bridges is funded with a combination of state and federal funds as well as toll revenues. Without the SHA transfer in the current year, the budget projects that there would not be sufficient funds in 2002-03 to cover projected toll bridge seismic retrofit expenditures. To pay for these expenditures, the budget proposes \$210 million in “interim financing” in the budget year, involving a short-term loan to be repaid by a later bond issuance authorized by Chapter 907, Statutes of 2001 (AB 1171, Dutra). The bonds in turn will be repaid by toll revenues.

Caltrans will certainly have to issue these bonds in future years to meet its cash-flow needs for toll bridge seismic retrofit. However, the interim financing proposed for 2002-03 would not be necessary if the SHA transfer to TBSRA in the current year were made as originally enacted.

Balance of TCRF Likely Higher; SHA Loan Needed May Be Smaller

We believe the budget overestimates current-year and budget-year expenditures from the Traffic Congestion Relief Fund (TCRF), and therefore a large loan from the State Highway Account (SHA) will likely not be required. We recommend adoption of budget bill language limiting the transfer from SHA to TCRF. We further recommend adoption of budget bill language to provide increased flexibility in the transfer of TCRF money to the General Fund.

Under the TCRP, the General Fund provided TCRF \$1.6 billion in 2000-01 to fund 141 designated transportation projects. These projects were to receive additional General Fund transfers of \$678 million annually for five years, beginning in 2001-02.

Funding for TCRP Deferred in Current Year. In enacting the current-year budget, the Legislature and Governor approved a loan of \$238 million from TCRF to the General Fund in order to address a shortfall in the General Fund. Additionally, Chapter 113 deferred the first \$678 million transfer until 2003-04. In order to ensure that the cash-flow needs of TCRP projects are met, Chapter 113 authorizes the Department of Finance to make loans to TCRF from various transportation funds, including:

- An interest-free loan of up to \$100 million from the Motor Vehicle Account to be repaid no later than June 30, 2007.
- Loans of up to \$280 million from PTA.
- Loans of up to \$180 million from SHA.

The PTA and SHA loans will be repaid no later than June 30, 2008 and June 30, 2007, respectively.

Budget-Year Loan to Be Repaid in Three Years. The Governor's budget now proposes to loan \$672 million from TCRF to the General Fund in the budget year. According to Caltrans, these loans are to be repaid over three years, beginning in 2003-04. Figure 2 shows when all the loans authorized by Chapter 113 and proposed in the budget are to be made and repaid.

Figure 2				
Traffic Congestion Relief Fund				
Loans and Repayments^a				
<i>(In Millions)</i>				
Year	General Fund	State Highway Account	Public Transportation Account	Motor Vehicle Account
2000-01	—	\$60	—	—
2001-02	-\$238	60	\$180	—
2002-03	-672	534	100	—
2003-04	300	-50	—	—
2004-05	574	-149	—	\$100
2005-06	336	-275	—	—
2006-07	-195	-180	—	-100
2007-08	-106	—	-280	—

^a Positive numbers indicate funds payable to TCRF; negative numbers indicate funds payable from TCRF to specified fund.

Actual TCRF Balance Likely to Be Higher Than Projected. Based on our review of the department's cash-flow needs for TCRP projects, the additional loan to the General Fund proposed in the budget will most likely not have an adverse impact on project delivery. This is because TCRF expenditures in all likelihood will be lower than projected. In fact, we believe TCRF expenditures by the end of the budget year could be about \$300 million lower than the budget projects, allowing a larger TCRF loan to the General Fund, if needed. As an indication of the likelihood of lower TCRF expenditures, consider recent experience. In January 2001, Caltrans estimated that TCRF expenditures would total \$1.1 billion by the end of the current year. Caltrans has now revised that amount downward to \$665 million. Our review further shows that less than \$200 million has been expended to date leaving, we believe, an estimated TCRF balance of about \$1.4 billion.

Based on the expenditure experience to date as well as Caltrans' historical overestimation of SHA expenditures (discussed later), we believe

that expenditures on TCRF projects in 2002-03 could be substantially lower than projected, leaving a much higher than projected cash balance in TCRF. As a consequence, it is likely that part of the proposed \$474 million loan from SHA would not be needed. Accordingly, we recommend that the following budget bill language be adopted limiting the transfer from SHA to only what is needed for cash-flow purposes, up to the amount proposed. This will provide Caltrans with maximum flexibility and not commit it to needless transfers.

Item 2660-013-0042. The amount to be transferred to the Traffic Congestion Relief Fund is limited to an amount needed for cash-flow purposes, up to the amount specified in the item.

Similarly, to provide the Legislature with the flexibility to transfer more from TCRF to the General Fund if necessary, we recommend that budget bill language under Item 2660-011-3007 be adopted to allow the Department of Finance, with adequate notification to the Legislature, to transfer more than \$672 million if TCRF expenditures are lower than projected.

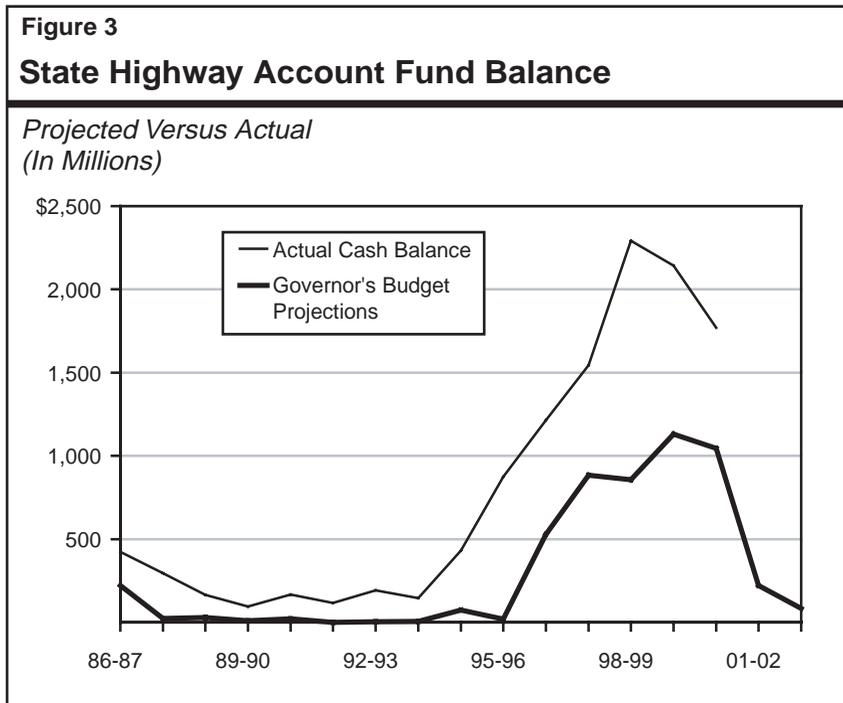
The Director of Finance may authorize the transfer of an amount exceeding the \$672 million provided by this item if the Director determines both that (1) the General Fund condition necessitates such a transfer and (2) expenditures from the Traffic Congestion Relief Fund are lower than originally expected and the additional transfer will not negatively affect cash-flow needs of transportation projects. Any additional transfer may be authorized not sooner than 30 days after notification in writing of the necessity therefor to the Chair of the Joint Legislative Budget Committee and the chairs of the committees of both houses that consider the state budget and that consider appropriations. The total amount transferred by this item shall not exceed \$1 billion.

Expenditure Projection for SHA Is Optimistic; Fund Balance Likely to Remain Much Higher

With the use of the State Highway Account (SHA) to backfill the Traffic Congestion Relief Fund, the budget projects an SHA cash balance of only \$84 million at the end of the budget year. Based on past expenditure trends, we find it unlikely that the balance will fall to this level.

Substantial Balance in SHA; Actual Cash Balance Consistently Higher Than Projected. Our review shows that for the past two decades, the department has consistently underestimated the SHA cash balance. In fact, the SHA has maintained a substantial cash balance of more than \$1 billion since 1996-97. Figure 3 (see next page) compares the actual cash balances in SHA to the levels projected. As Figure 3 shows, actual balances have been above projected levels since 1986-87, and the SHA cash

balance has risen dramatically since 1993-94. In 1998-99, the balance reached a record high of \$2.3 billion—\$1.4 billion more than projected. Likewise, for the current year, Caltrans now estimates a balance of \$1.3 billion, more than \$1 billion higher than the \$222 million originally projected in January 2001.



Higher Cash Balances Due to Optimistic Projection of Expenditures.

One of the primary reasons for the higher than projected SHA fund balance is the consistent overestimate of capital outlay expenditures. For example, 1999-00 SHA capital outlay expenditures were projected at \$683 million, but actual expenditures were only \$405 million. In fact, for the six years from 1995-96 through 2000-01, actual SHA capital outlay expenditures were on average \$323 million less per year than projected. There are a number of reasons for these large differences, one of which is Caltrans' difficulty in delivering projects as quickly as it projects it can, as described in more detail later in this chapter (Item 2660).

Projected Large Drop in SHA Cash Balance Unlikely. The Governor's budget again projects that the SHA cash balance will fall dramatically, from \$1.8 billion at the end of 2000-01 to \$558 million by the end of 2002-03, not including the proposed loan to the TCRF. (With the transfer, the SHA

balance will drop to \$84 million as shown in Figure 3.) This decline in cash balance assumes a significant increase in capital outlay expenditures to \$915 million in 2002-03. The projected expenditure level represents an increase of 63 percent over the estimated level in 2001-02 and 149 percent above actual expenditures in 2000-01.

Given Caltrans' past overestimates of expenditures, we do not believe that actual capital outlay expenditures will grow this rapidly. Consequently, the SHA fund balance could be hundreds of millions of dollars higher at the end of 2002-03.

TOLL BRIDGE SEISMIC RETROFIT

Funding Augmented, But Potential for Further Cost Overruns Remains

In 2001, Caltrans revealed that projected costs for seismic retrofit of state-owned toll bridges had substantially increased. The Legislature responded by providing additional funding for toll bridge seismic retrofit, including coverage for potential future cost overruns. Despite the increased funding, seismic retrofit costs could still exceed the overrun coverage in future years.

Since 1993, the state has been retrofitting all state-owned toll bridges for seismic safety. In 1997, Caltrans estimated total costs of the retrofit program at \$2.6 billion, including \$1.3 billion to replace the east span of the San Francisco-Oakland Bay Bridge. All retrofit work was scheduled to be completed by 2004. The \$2.6 billion costs were to be funded with a \$1 toll surcharge on the state's Bay Area toll bridges, general obligation bonds, and a combination of SHA and PTA funds.

Toll Bridge Seismic Retrofit Costs Have Greatly Increased. In 2001, Caltrans revealed that toll bridge seismic retrofit schedules had slipped and total costs would increase by 77 percent, from \$2.6 billion to \$4.6 billion. Projected costs for the largest component of the program, replacement of the east span of the Bay Bridge, more than doubled from \$1.3 billion to \$2.6 billion. Figure 4 shows Caltrans' revised cost estimates.

New Funding Provided by AB 1171. In response to the significantly higher cost estimates, the Legislature enacted Chapter 907, Statutes of 2001 (AB 1171, Dutra), which provided additional funding of up to \$2.5 billion from several sources:

- *An Additional \$1.4 Billion From Toll Revenues.* Assembly Bill 1171 repealed the 2008 sunset date for the \$1 toll surcharge on the state's Bay Area toll bridges. Instead, the surcharge will be ex-

Figure 4
Toll Bridge Seismic Retrofit Cost Increases

(Dollars in Millions)

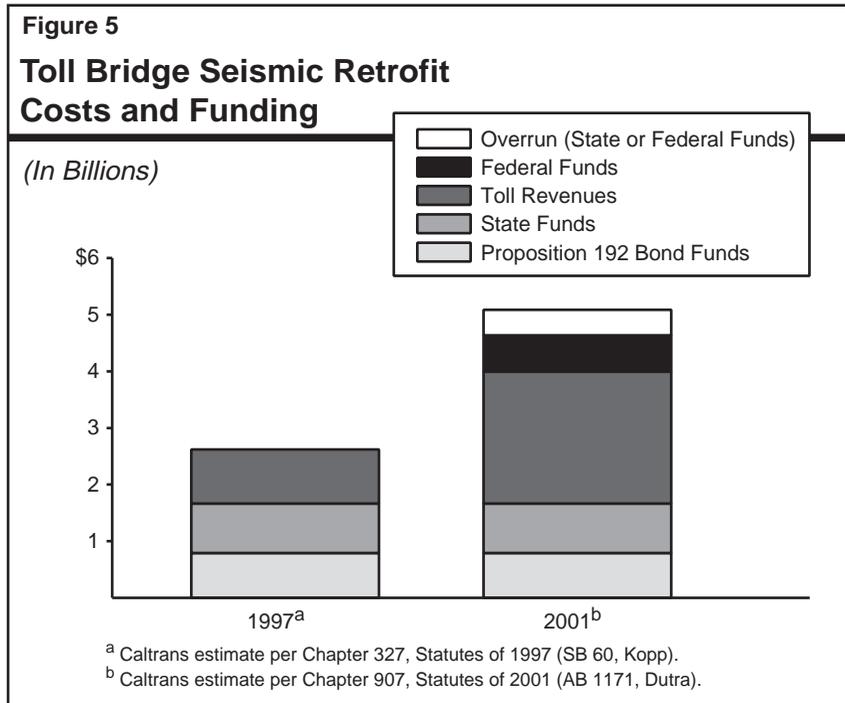
Bridge	Cost Projection		Percent Increase
	1997 Estimate	2001 Estimate	
San Francisco-Oakland Bay			
New east span	\$1,285	\$2,600	102%
West span	553	700	27
Richmond-San Rafael	329	665	102
San Mateo-Hayward	127	190	50
Benicia-Martinez	101	190	88
Carquinez—eastbound	83	125	51
San Diego-Coronado	95	105	11
Vincent Thomas	45	62	38
Totals	\$2,618	\$4,637	77%

tended for up to 30 additional years. This surcharge is now expected to provide a total of \$2.3 billion, almost half of the entire projected seismic retrofit cost.

- **\$642 Million in Federal Funds.** Part of the federal funds the state receives annually for highway bridge rehabilitation and replacement will be used for toll bridge seismic retrofit, with the first expenditure of these funds occurring in the budget year.
- **\$448 Million Overrun Coverage by State or Federal Funds.** Recognizing that Caltrans' projected costs could still be low, AB 1171 gave Caltrans the authority to cover any costs over \$4.6 billion with up to \$448 million from the State Transportation Improvement Program (STIP), the State Highway Operation Protection Plan (SHOPP), or federal bridge funds. If Caltrans uses this authority, it would reduce the number of other projects it can deliver with the selected funding source(s). Caltrans has complete discretion as to which of the three sources would supply this funding.
- **Bond Issuance to Cover Cash-Flow Needs.** Because annual toll revenue from state bridges will be much lower than the cash-flow needed to meet retrofit schedules, AB 1171 allows Caltrans to issue bonds that will be repaid by future toll revenues. The

\$210 million “interim financing” proposed in the Governor’s budget is a short-term loan that would be repaid by these bonds.

Figure 5 compares the funding of toll bridge seismic retrofit under AB 1171 to the funding previously provided in 1997.



First Contract for Bay Bridge East Span Over Budget. In January 2002, Caltrans awarded the first of four contracts for the replacement of the east span of the Bay Bridge. The lowest bid was \$1 billion, over \$200 million more than Caltrans’ estimate. Despite the significantly higher cost of this contract, Caltrans currently projects it will not need the overrun authority provided by AB 1171. Previous experience with Caltrans’ toll bridge seismic retrofit expenditure projections suggests that this projection is optimistic. While bids for the remaining contracts have not yet been received, it appears likely that, at a minimum, Caltrans will have to use part of its overrun authority. If future bids also come in substantially higher than expected, or there are cost overruns on the other toll bridges, Caltrans may have to obtain additional money from the Legislature in future years.

PUBLIC TRANSPORTATION ACCOUNT (PTA)

Budget Projects Substantially Less PTA Funds

As a result of a combination of factors, the budget projects substantially less Public Transportation Account funds to be available in the current and budget years than originally anticipated.

The PTA was established by the Transportation Development Act of 1971, to provide a source of state funds primarily for transit (including bus and rail) purposes. Historically, the three largest expenditures from the PTA have been for the State Transit Assistance (STA) program, intercity rail services, and transit capital improvements. Under current law, the STA program receives at least 50 percent of annual PTA revenues. The remaining PTA funds support various other public transportation purposes, including intercity rail service, capital improvements of transit systems, rail and mass transportation planning and support, and high-speed rail development.

Sales Taxes on Diesel and Gasoline Generate Most PTA Revenue. The two main sources of revenue into PTA are sales and use taxes on diesel fuel and gasoline. The largest source is a 4.75 percent sales tax on diesel fuel. The second major source is a 4.75 percent sales tax on 9 cents of the state excise tax on gasoline. In addition, PTA receives any "excess revenue" generated from a 4.75 percent sales tax on all taxable goods, including gasoline, as compared to a 5 percent rate on all taxable goods, excluding gasoline. This mechanism, known as "spillover," holds the General Fund harmless, but provides additional revenues to PTA. For 2002-03, the budget projects that these sales tax revenues to PTA will total \$231 million.

Figure 6 shows resource and expenditure estimates for the PTA for the current and budget years. Our review shows that due to a combination of factors, PTA revenues for the current and budget years are substantially lower than originally anticipated.

Available PTA Funds Substantially Reduced With TCRP Refinancing. As we discussed earlier, the 2001-02 budget refinanced the TCRP in order to free up money for the General Fund. The refinancing plan substantially reduced total available PTA funds in the current and budget years. Specifically, under the refinancing plan, the PTA loaned \$180 million to TCRF in the current year, and will loan \$100 million in the budget year. These loans are scheduled to be repaid in 2007-08. In addition, the refinancing plan also deferred the transfer of an estimated \$177 million in gasoline sales tax revenues to PTA over the current and budget years.

Figure 6		
Public Transportation Account		
Fund Condition^a		
<i>(In Millions)</i>		
Resources	2001-02	2002-03
Beginning reserve	\$259	\$81
Fuel sales tax revenues	237	231
Loans to TCRF	-180	-100
Transfers from SHA	109	86
Other	4	3
Totals	\$429	\$300
Expenditures		
STA	\$171	\$115
Local assistance	42	3
Intercity rail		
Existing service	69	73
New service	10	0
Capital improvements	1	25
Support and other	56	58
Totals	\$349	\$274
Balance	\$81	\$26
^a Totals may not add due to rounding.		

Lower Gasoline Prices and Drop in Diesel Fuel Sales Reduce PTA Funds Further. As Figure 6 shows, the Governor's budget estimates sales tax revenues from diesel fuel and gasoline to PTA to be \$237 million for the current year. This is substantially lower than originally anticipated due to two factors. First, lower gasoline prices in 2001 have significantly reduced the spillover to PTA for the current year. Caltrans originally projected the amount to be \$80.4 million. It now estimates the amount to be \$12.7 million. Second, because of the economic slowdown, diesel fuel sales have declined. Caltrans estimates current-year diesel fuel sales tax revenues to total \$161.3 million, a difference of \$12.7 million.

For the budget year, Caltrans projects no spillover and diesel fuel sales tax revenues to be \$167 million.

Tax Regulation to Reduce PTA Revenues Further; Account Faces Shortfall

While the budget projects a balance of about \$26 million for the Public Transportation Account (PTA) at the end of the budget year, the account could in fact face a shortfall of about \$24 million due to additional revenue losses resulting from recently adopted tax regulations. We recommend that the planned loan of \$100 million from PTA to the Traffic Congestion Relief Fund be reduced accordingly in order to avert a PTA shortfall.

Chapter 156, Statutes of 2001 (AB 426, Cardoza), exempts from sales taxes diesel fuel used in farming activities and food processing, including the delivery of farm products to the marketplace. The exemption had been estimated to reduce annual PTA revenues by \$6 million. However, in January 2002, the Board of Equalization adopted regulations to implement Chapter 156 that expanded the exemption significantly to include more types of farm equipment and activities. Caltrans estimates that the regulations would result in an additional revenue loss to PTA of as much as \$50 million per year.

As Figure 6 shows, the budget projected a PTA balance of \$26 million at the end of 2002-03. The budget, however, has not anticipated the impact of the regulations on PTA revenues. The additional revenue loss resulting from the regulations would result in a PTA shortfall of \$24 million.

The budget proposes total PTA expenditures of \$274 million in 2002-03, including \$115 million for the STA program. The STA amount meets the statutory requirement that 50 percent of PTA revenues be allocated to the program. The remaining proposed expenditures are mainly for the support and capital improvement of intercity rail service, and for the support of Caltrans' Mass Transportation program.

Options to Avert PTA Shortfall. The Legislature has several options to avoid a fund shortfall in 2002-03. These include:

- Reduce STA funding to less than the amount called for under current law.
- Eliminate budget-year expenditures on capital improvements for intercity rail service. The budget proposes \$25 million in capital expenditures mainly for track improvements. Eliminating these expenditures, however, would delay future expansion of intercity rail services.
- Fund track improvements for intercity rail service out of SHA instead.

- Reduce the amount of the loan to TCRF below the planned \$100 million in 2002-03.
- A combination of the above options.

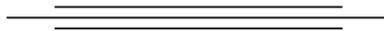
Loan to TCRF Should Be Reduced. The TCRP refinancing plan called for a \$100 million PTA loan in 2002-03 in order to meet the cash-flow needs of TCRP projects. However, as we discussed in an earlier section, based on expenditure experience to date, TCRP expenditures are likely to be much lower than projected. Consequently, a full \$100 million will likely not be needed.

Accordingly, we recommend that the planned PTA loan be reduced by at least \$24 million in order to avoid a PTA shortfall. This would provide adequate funds for all PTA expenditures proposed for 2002-03.

The PTA Faces Funding Pressure Until 2007-08

The combination of loans to the Traffic Congestion Relief Fund, deferral of transfers from gasoline sales tax revenues into the Public Transportation Account (PTA), and expanded diesel sales tax exemptions will likely place pressure on the PTA for the next few years.

The original TCRP provided substantially more funds for PTA programs. In the *2001-02 Analysis*, we projected a total of \$261 million in uncommitted funds in PTA over the four years from 2002-03 through 2005-06. However, as a result of the TCRP refinancing, unexpected changes in the economy, and new tax exemptions, there will very likely be no uncommitted funds available for programming of capital improvements for the next four to five years, until the loans to TCRF are repaid in 2007-08.



MOTOR VEHICLE ACCOUNT CONDITION

The Motor Vehicle Account (MVA) derives most of its revenues from vehicle registration and driver license fees. In 2001-02, those fees account for 88 percent of the estimated \$1.3 billion in MVA revenues. Another 5 percent of MVA revenues are derived from the sale of information. The majority of MVA revenues support the activities of the California Highway Patrol (66 percent), the Department of Motor Vehicles (25 percent), and the Air Resources Board (7 percent).

MVA Faces Deficit in Budget Year Without Corrective Actions

Increased costs for security activities in the budget year, together with other Motor Vehicle Account (MVA) expenditures, will result in an MVA shortfall if corrective actions are not taken. The budget proposes a combination of expenditure reductions, fee and penalty enhancements, and federal reimbursement to bridge the funding gap.

The budget proposes MVA expenditures totaling \$1.5 billion in 2002-03. To finance the expenditures and to provide for a reserve, the 2002-03 budget assumes the state will receive or approve \$195.4 million in new revenues, expenditure reductions, and federal reimbursement grants. Assuming these actions, the budget projects a balance of \$188 million at the end of 2002-03.

Penalty and Fee Increases Aimed at Boosting MVA Revenues. The budget proposes to boost MVA revenues by \$76 million in the budget year and \$98 million each year thereafter, as shown in Figure 1. Specifically, the budget proposes to:

- Increase penalties for late vehicle registration by \$25 million in the budget year and \$50 million annually thereafter. The penalty for missing the registration deadline by less than 10 days would increase from \$10 to \$17, while the penalty for missing the deadline by more than two years would rise from \$165 to \$217.
- Double the fees charged for the purchase of driver information from the current \$2 per record to \$4.

- Merge the Motor Carriers Permit Fee Account with the MVA, impose a new \$5 fee for retaking a driving test, create a new \$120 fee for second appeals of driving-under-the-influence (DUI) sanctions, and boost from \$100 to \$125 the fee for reissuance of a license for former DUI offenders.

The Department of Motor Vehicles (DMV) indicates that legislation is needed to implement each of these changes except for the increased fees for the purchase of information.

Figure 1		
Motor Vehicle Account Revenue Proposals		
<i>(In Millions)</i>		
Program	2002-03	Ongoing
Higher penalties for late registration	\$25	\$50
Doubled charges for sale of information	40	40
Merge Motor Carriers Permit fee with MVA	9	2
New driving test retake fee	0	2
DUI appeal and license reissuance fees	2	4
Totals	\$76	\$98

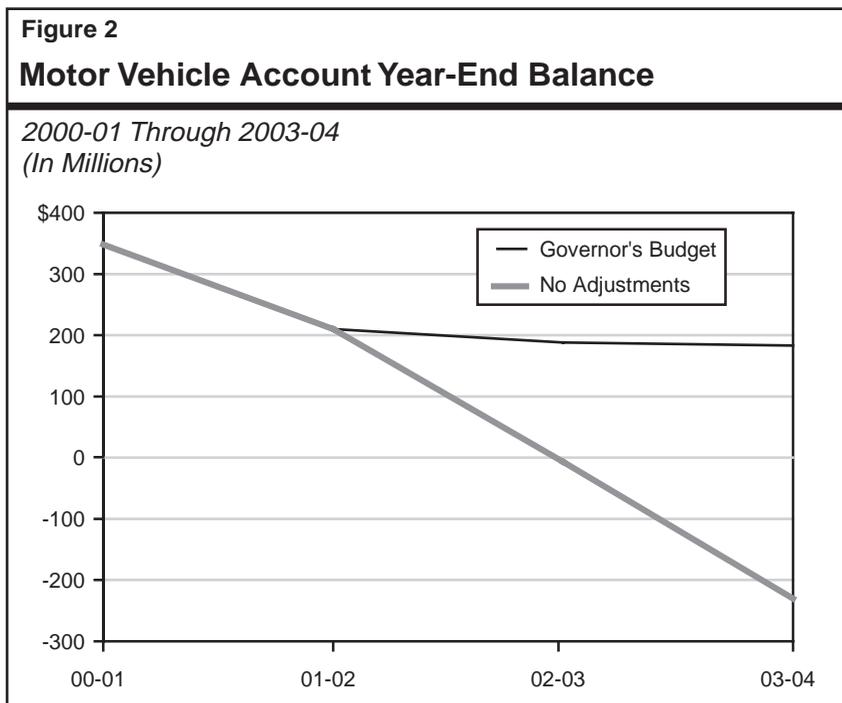
Budget Proposes Expenditure Reductions. The budget proposes to cut MVA-funded expenditures by \$10.8 million at the DMV, \$10.5 million at the Air Resources Board (ARB), and \$8.5 million at the California Highway Patrol (CHP), as follows.

- The DMV would cut 11 different programs, with the largest savings (\$5 million) achieved by eliminating the use of certified mail for the delivery of orders of suspension and revocation.
- The ARB would reduce subventions to local air districts by \$5 million, cut \$2.1 million from research on the health effects of pollution, trim \$1.5 million from its community health program, shave \$1.2 million from its air quality and emissions inventory program, and make smaller cuts in three other programs.
- The CHP would defer \$3 million in equipment purchases, trim \$2 million in administrative expenses, cut \$1.5 million in gasoline purchases, defer \$1.5 million in facility repairs, and postpone \$500,000 in vehicle replacements.

Federal Funds for Enhanced Security Assumed. The budget proposes \$89.6 million in MVA expenditures to boost the state’s security and protection against terrorism. The budget assumes this amount will be reimbursed by federal funds. (Please see a discussion of the proposal in this “Crosscutting Issues” section.)

Future Will Bring Deepening Shortfalls if Changes Not Approved. Our review shows that without the actions proposed in the budget and the projected federal reimbursements, the MVA would face a shortfall of \$7 million at the end of the budget year. Figure 2 shows the condition of MVA under the Governor’s budget proposal and the account balance if no corrective actions are taken and federal funds do not materialize. As Figure 2 shows, without corrective actions, the MVA would have a shortfall of \$230 million at the end of 2003-04. This shortfall would increase further in 2004-05.

If only the proposed expenditure reductions are adopted, the account would have a relatively small balance of \$23 million at the end of the budget year. However, the account would still face a substantial shortfall by the following year. If, for example, revenues were to grow at the average rate of the past six years, and assuming expenditures stay relatively constant beyond 2002-03, the account would face a shortfall of more than \$167 million in 2003-04.



Proposed MVA Use Raises Important Issues

The Motor Vehicle Account is not an appropriate funding source to pay for the costs of security activities on an ongoing basis.

A key contributing factor to the MVA shortfall, absent corrective actions, is the proposal to use a total of \$129 million for enhanced security activities by CHP in the current and budget years. The budget anticipates that these expenditures will be reimbursed by federal funds.

Our review of the budget's proposal to fund these security activities out of MVA raises two concerns:

- First, the budget proposes a significant increase in ongoing costs, but hopes for one-time federal funds to finance them.
- Second, the use of an increasingly large share of MVA funds for security programs raises questions about the appropriateness of the funding source.

One-Time Funding Proposed for Ongoing Expenses. According to the CHP, almost all of the increased security costs proposed to be funded by MVA are ongoing expenses. The budget assumes one-time federal funds to cover these expenditures in the current and budget years. At the time this analysis was prepared, the federal funds for 2002-03 were still highly uncertain. Additionally, there is no federal program that would provide money for the proposed security activities on an ongoing basis. Thus, beyond 2002-03, the Legislature and administration would still have to provide a source of funds for these activities.

MVA Is Not Appropriate as Sole Fund Source for Protective Services on an Ongoing Basis. Until 1995, the California State Police (CSP) provided protective services for state property and employees. The CSP allocated its costs to other departments, which funded CSP through reimbursements. After the CSP consolidated with CHP, it continued the reimbursements-based funding system. But the system grew increasingly complex and inefficient.

In 2000-01, CHP's protective services were funded directly, with funding divided between the General Fund and MVA. In 2001-02, with the state facing increasing pressure on the General Fund, MVA became the sole funding source for CHP protective services activities.

The primary purpose of the MVA, however, is to finance vehicle regulation and traffic enforcement by the DMV and the CHP, rather than to provide for statewide protective and security services. Additionally, Article XIX of the State Constitution requires that revenues collected by state fees and taxes on vehicles or their use or operation must be used for vehicle regulation and traffic enforcement. Our review shows that on aver-

age, about 90 percent of MVA revenues are subject to Article XIX restrictions. For 2002-03, of the \$1.4 billion in MVA revenues projected (including the proposed fee increases), we estimate that the use of all but about \$163 million is restricted constitutionally. Thus, for 2002-03, there are sufficient unrestricted MVA funds to cover the approximately \$125 million in protective and security activities proposed in the budget.

However, our analysis shows that beyond 2002-03, the MVA would not have sufficient nonrestricted funds to support protective and security activities on an ongoing basis and at the same time accommodate the growth in expenditures for other activities funded from the MVA. Given MVA's primary purpose, we think that MVA funds should first be dedicated to traffic enforcement and regulation activities. The MVA should not be solely relied upon to provide funding for ongoing security activities.

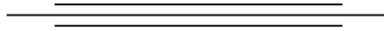
Ongoing Protective Services Should Be Funded With Mix of Funds

We recommend that the ongoing support for protective services and security activities be funded with a combination of General Fund, Motor Vehicle Account, and reimbursements. We further recommend the adoption of supplemental report language directing the California Highway Patrol, working with the Department of Finance, to prepare a cost allocation study to provide a basis to determine the appropriate level of funding from the three respective sources for the 2003-04 and subsequent budgets.

Because not all of CHP's protective service and security activities are related to transportation and the enforcement of vehicle laws, we do not think that MVA is an appropriate funding source to provide ongoing support of all of these activities. Rather, the MVA fund should be used on an ongoing basis for services related to transportation, such as patrol of state transportation facilities. Security services that are non-transportation-related, including the patrol and security of state buildings and state employees in general should be funded from the General Fund. Where security activities are enhanced for particular departments or programs, those services should be reimbursed.

Accordingly, we recommend that on an ongoing basis beyond 2002-03, CHP protective and security services be funded from a combination of General Fund, MVA funds, and reimbursements. In order to establish a baseline for this funding split, we recommend the adoption of supplemental report language directing CHP, in cooperation with the Department of Finance, to prepare a cost-allocation study based on budget-year allocation of resources to transportation versus non-transportation-related security activities and associated expenditures, as follows:

The California Highway Patrol (CHP), in cooperation with the Department of Finance, shall prepare a cost-allocation study to provide the baseline for determining the appropriate mix of General Fund money, Motor Vehicle Account funds, and reimbursements to support CHP's protective and security activities. The study shall be based on the 2002-03 allocation of resources to transportation versus non-transportation-related security activities. This report shall be submitted to the Chair of the Joint Legislative Budget Committee and the chairs of the appropriations and budget committees of each house no later than January 10, 2003 as part of the 2003-04 budget proposal.



ENHANCED SECURITY ANTITERRORISM PROGRAMS

Security activities were enhanced throughout state government immediately after the terrorist attacks of September 11, 2001. The administration indicates that it expects to receive a total of \$350 million in federal funds to offset the costs of antiterrorism security activities. Of this total, the budget allocates \$164 million in the current and budget years to implement specific enhanced security measures. The goal of the enhanced security programs is to maintain a level of security sufficient to protect the state's vital facilities, its supply of drinking water, and the health of its citizens. The focus of the programs is on prevention, although they also contain provisions for response to terrorist attacks.

Budget Proposal

Figure 1 shows the expenditures proposed for various departments to carry out the enhanced security activities in the current and budget years. For 2002-03, the budget proposes a total of \$96.2 million for specific enhanced security programs. As shown in Figure 1, this includes about \$89.6 million (93 percent) for the California Highway Patrol (CHP).

In addition to the expenditures specifically identified in the Governor's budget, the *Governor's Budget Summary* indicates that the administration expects to spend another \$10 million in the current year and \$176 million in the budget year for security programs. However, the expenditures of these funds are not identified in the budget.

California Highway Patrol Will Play Major Role in Enhancing Security. The budget proposes a number of antiterrorism measures, from increased fencing and surveillance equipment to increased aerial patrols, truck inspections, and larger security patrols at bridges, nuclear power plants, and other facilities. The majority of these security measures would be implemented by CHP. For 2002-03, as shown in Figure 2, the budget proposes \$89.6 million from the Motor Vehicle Account (MVA) to add 316 positions (including 27 supervisory positions) for CHP to carry out the additional security duties. The requested funds will provide the following:

Figure 1**Enhanced Security Antiterrorism Programs
All Funds***(In Millions)*

Department	Program	2001-02	2002-03	Total
Appropriated in Budget				
CHP	Increased patrols, inspections, overtime	\$39.5	\$89.6	\$129.1
Transportation	Bridge security measures	24.2	—	24.2
Military	Bridge patrols	3.9	6.0	9.9
OES	Strategic Committee on Terrorism	—	0.6	0.6
Subtotals		\$67.6	\$96.2	\$163.8
Not Appropriated in Budget				
Unspecified	—	10.0	176.0	186.0
Totals		\$77.6	\$272.2	\$349.8

Figure 2**CHP Enhanced Security Programs***(In Millions)*

Program	2001-02	2002-03
Overtime	\$34.9	\$32.5
New helicopters, increased air patrols	4.6	26.3
Increased truck inspections	—	14.4
Bridge security	—	4.6
Supervision and support	—	3.3
Security for state buildings	—	2.9
Bioterrorism protective gear	—	2.5
Antiterrorism task forces	—	2.0
State health lab security	—	1.0
Totals	\$39.5	\$89.6

Totals may not add due to rounding.

- 100 officers to operate the state's 18 commercial vehicle (truck) inspection facilities 24 hours each day.
- 50 officers assigned to inspect carriers of hazardous materials.
- 40 officers to provide security for nine major bridges and the Trans Bay Terminal in San Francisco.
- 33 officers for the State Capitol and state office buildings and facilities.
- 24 officers to serve on various antiterrorism task forces and to staff a new Emergency Notification and Tactical Alert Center (ENTAC).
- 24 pilots and flight officers to operate five new helicopters for aerial patrols.
- 18 officers to patrol nuclear power plants and state health laboratories.
- \$32.5 million for staff overtime in the event of tactical alerts and \$2.5 million for equipment to protect officers against chemical weapons.

Enhanced Security Programs by Other Agencies. As shown in Figure 1, the budget also proposes antiterrorism expenditures by the Department of Transportation (Caltrans), the Military Department, and the Office of Emergency Services (OES) in the current and budget years:

- Caltrans will spend about \$24 million from the State Highway Account in the current year to install additional surveillance cameras, fences, gates, and locks on the state's toll bridges.
- The Military Department will spend \$3.9 million in General Fund money in the current year and \$6 million in federal funds in the budget year for 97 National Guard members to patrol major bridges.
- The Office of Emergency Services will spend \$562,000 in 2002-03 to support the State Strategic Committee on Terrorism (SSCOT), a multiagency advisory group on terrorism response.

The *Governor's Budget Summary* also lists several other security programs in other agencies. However, there are no specific expenditures proposed in the Governor's budget for these programs. These programs include:

- The Department of Justice proposes to spend \$5 million over two years to support a new California Antiterrorism Information Center (CATIC).

- The Department of Health Services will spend \$5 million in the current year in grants to local public health agencies to increase their ability to detect and respond to bioterrorism and chemical attacks.

Our review of the enhanced security request raises a number of issues that the Legislature should consider when evaluating the administration's proposal. We discuss these issues in the following sections.

State Role and Responsibilities Need Clear Definition

The proposal assigns state personnel to protect private facilities, such as nuclear power plants, and nonstate facilities, such as the Golden Gate Bridge. We recommend that the Legislature determine whether it is the responsibility of the state to protect private facilities and nonstate facilities on an ongoing basis.

The budget calls for CHP to dedicate six positions to protect privately owned nuclear power plants, and 12 officers to patrol the Golden Gate Bridge. For the budget year, funds for these activities are proposed from the MVA.

While these facilities are undoubtedly vital to the state, they nonetheless are not state facilities. Besides, the facilities each have their own security personnel. For instance, the Golden Gate Bridge District has its own police division responsible for security of the bridge. In determining which security activities the state should engage in on an ongoing basis, and how to fund these activities, the Legislature should consider the relative roles and responsibilities of the state versus nonstate (including local and private) entities. This would provide for a clear definition of authority, responsibility, and funding for the program on an ongoing basis.

The current California Terrorism Response Plan was adopted as a part of the State Emergency Plan in 1999 and updated in February 2001. The plan outlines procedures for state and federal responses to terrorist threats and incidents, but does not address the issue of responsibility for the protection of private and nonstate facilities.

Issues for Legislative Consideration. We recommend that the Legislature consider the following issues when evaluating proposals for enhanced security against terrorism:

- What are the appropriate areas and levels of responsibility for the state, federal, and local governments and private entities to assume for protecting citizens and facilities against terrorism? For instance, should the state be responsible, in whole or in part, for the protection of all areas or facilities with statewide impor-

tance, even if these are not state facilities? What should be the role of local law enforcement agencies?

- Who should pay for ongoing security services at the local level? Who should pay for the security of private facilities and nonstate facilities that have statewide importance?
- How should these services be funded?
- Of the security services the state is responsible for providing, which should be under the jurisdiction of CHP, and which should be provided by other agencies?
- What is the appropriate allocation of resources between programs to prevent terrorism and those that respond to terrorist incidents?

Level of Federal Funding Remains in Doubt

We withhold recommendation on \$89.6 million requested for enhanced security by the California Highway Patrol in the budget year because it is not known at this point how much money the federal government will provide for the cost of state antiterrorism programs. The level of federal funding will be better known by the time of the May Revision.

We further recommend the adoption of budget bill language to restrict the California Highway Patrol from using funds requested for overtime for tactical alerts to pay for regular overtime costs.

The President's 2002-03 federal budget proposes to provide \$37.7 billion for homeland security programs, including \$3.5 billion for states and local governments to equip and train first responders such as firefighters, police, and paramedics, but it does not indicate how much of that amount would go to California or other states. It also does not specify the process by which allocations would be determined, or the conditions and requirements that recipients of federal aid would be required to meet.

Withhold Approval of CHP Request Until Federal Funding Level Is Known. The budget anticipates that the proposed \$89.6 million for CHP expenditures on security will be reimbursed by federal money. It is likely that better information regarding the availability of federal funds will be forthcoming by the time of the May Revision. Thus, we withhold recommendation on the requested amount. (Consistent with this recommendation, we also withhold recommendation on \$6 million requested for the Military Department. Please see Item 8940 in the "General Government" chapter.)

Segregate Overtime Funds for Tactical Alerts From Regular Overtime. The CHP carries out various activities for which officers and staff

are paid overtime. In the current year, the base level of overtime support is \$55 million. The budget proposes an additional \$32.5 million (out of the \$89.6 million requested) to cover the costs of staff overtime for tactical alerts. The amount would pay for an equivalent of 780,000 hours of overtime, and is proposed so that CHP has the authority to spend for staff overtime in the event additional security is needed in such emergencies.

We do not object to allocating a portion of the funds to staff overtime. However, we think these funds should be made available only for CHP tactical alerts and not for regular overtime. Accordingly, we recommend that the following budget bill language be adopted in Item 2720-001-0044:

Of the funds appropriated in this item, \$32.5 million is allocated for overtime costs for security tactical alerts. If the amount used for overtime for tactical alerts is less than \$32.5 million, the remainder of that sum shall revert to the Motor Vehicle Account.

If the amount to be allocated for CHP tactical alert overtime is changed as a result of the May Revision, the amount specified in the budget bill language should be adjusted accordingly.

Expenditure Priorities Needed for Additional Federal Funds; Legislative Review Should Be Provided

We recommend that the Department of Finance provide the Legislature by the time of the May Revision an expenditure plan that describes the administration's priorities for the use of these additional federal funds.

We further recommend that a separate control section be added to the budget bill that would allow the Director of Finance to expend any portion of the anticipated federal funds in accordance with the expenditure plan, upon 30-day notification of the Legislature.

Our review shows that while some components of the enhanced security program have been in place since September 11, other parts are far from ready to be implemented.

Proposal Needs More Details. Although the administration indicates that it expects to receive \$350 million in federal funds to offset the cost of antiterrorism activities, the budget allocates only \$164 million of those funds for programs during the current and budget years. We find that there are no specific proposals regarding the agencies and programs that are expected to receive the additional \$186 million in federal funds, including \$176 million which would be expended in 2002-03. Additionally, it is not clear from the budget whether all components of the program are proposed to be ongoing and the budget does not identify long-term funding sources.

Expenditure Priorities Should Be Identified. While we understand that the availability of the federal funds is still uncertain, we think that to the extent the administration expects their availability, it should provide the Legislature with its priorities as to how the funds should be expended. This would provide the Legislature better information to assess the programs already proposed in the budget, as well as to determine what additional security activities should be implemented if additional funds are available. It would also clearly lay out the priorities of activities to be funded in the event the state receives less than the amount of federal funds expected.

In October 2001, the Governor issued an executive order requiring the SSCOT to evaluate the potential threat of terrorist attack and review California's readiness to prevent and respond to an attack. The Governor also ordered the SSCOT to establish and prioritize recommendations for prevention and response.

Accordingly, we recommend that the Department of Finance provide the Legislature, by the time of the May Revision, an expenditure plan for the additional anticipated federal funds. The plan should identify the administration's priorities and specify the various departments that would be allocated funds and the activities they are to carry out. It should also incorporate the findings and recommendations made by the SSCOT in response to the Governor's executive order.

New Control Section to Provide Expenditure Flexibility With Legislative Oversight. Our understanding is that the administration intends to use the Control Section 28.00 process to authorize the expenditure of additional federal funds it may receive in 2002-03 with a 30-day notification of the Legislature. However, in our view, this would be an inappropriate use of the process. This is because Section 28.00 is restricted to augmentations for the expenditure of *unanticipated* federal funds, and is not intended to provide an alternative budget process.

If additional federal funds are received for state security programs, they would not be unanticipated. As such, the Legislature should be able to exercise the same level of oversight and scrutiny over the expenditure of these funds as with other expenditures approved through the regular budget process.

In order to provide the administration with the flexibility to authorize the expenditure of up to \$176 million in potential additional federal funds while ensuring legislative review and oversight, we recommend the creation of a separate control section in the budget bill. This control section would authorize the Director of Finance to authorize the expenditures of these additional federal funds in accordance with the expenditure plan discussed above, no sooner than 30 days after notification has

been provided the Legislature. The following language is consistent with this recommendation:

The Director of Finance may authorize the expenditure of federal funds the state receives for security purposes in addition to the amount already approved in this act. The expenditures of such funds shall be in accordance with the expenditure plan submitted by the department and as approved by the Legislature. Such expenditures may be authorized no sooner than 30 days after notification in writing of the necessity therefor to the chairs of the fiscal committees and the Chair of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chair of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.

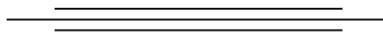
State Should Develop Long-Term Funding Plan For Protective Services

Many of the enhanced security activities proposed in the budget would be ongoing, but the funding for these activities is identified only for the current and budget years. We recommend that the ongoing support for California Highway Patrol (CHP) protective services and security activities be funded with a combination of General Fund, the Motor Vehicle Account, and reimbursements. The Legislature would need to address the ongoing funding of non-CHP security activities.

The administration indicates that most of the enhanced security programs proposed in the budget would be ongoing programs. However, future funding beyond the budget year has not been determined.

In our discussion of the MVA condition, we recommend that CHP's protective and security activities be funded with a mix of General Fund money, MVA funds and reimbursements. (Please see the "Motor Vehicle Account Condition" write-up in this section of this chapter.)

To the extent the Legislature approves additional security activities in other departments in 2002-03, particularly where the activities are to be funded from federal funds, it should also consider how these activities would be funded on an ongoing basis.



DEPARTMENTAL ISSUES

Transportation

DEPARTMENT OF TRANSPORTATION (2660)

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

The budget proposes expenditures of \$9 billion by Caltrans in 2002-03. This is about \$1.2 billion, or 15 percent, more than estimated current-year expenditures. This is largely due to a significant projected increase in capital improvements on state highways.

HIGHWAY TRANSPORTATION

Budget Proposes Major Increase in Highway Program Expenditures

The budget proposes expenditures of \$7.5 billion for the highway transportation program, about \$1.2 billion, or 19 percent, more than estimated current-year expenditures. This includes a 65 percent increase in proposed capital outlay expenditures.

The major responsibilities of the highway program are to design, construct, maintain, and operate state highways. In addition, the highway

program provides local assistance funds and technical support for local roads. For 2002-03, the budget proposes \$7.5 billion for the highway transportation program, approximately 83 percent of the department's proposed budget. This is an increase of \$1.2 billion, or 19 percent, over estimated current-year expenditures. This is due to a sizable increase in projected expenditures for capital outlay, as discussed below.

Of the \$7.5 billion, the budget proposes \$3.3 billion in capital outlay expenditures, an increase of 65 percent above estimated 2001-02 levels. This increase is primarily due to estimated expenditures for projects to be delivered in the five-year State Transportation Improvement Program (STIP). Although this proposed increase is large, it is misleading. This is because Caltrans has historically overestimated its capital outlay expenditures for the budget year when submitting its budget proposals, as described in the following section.

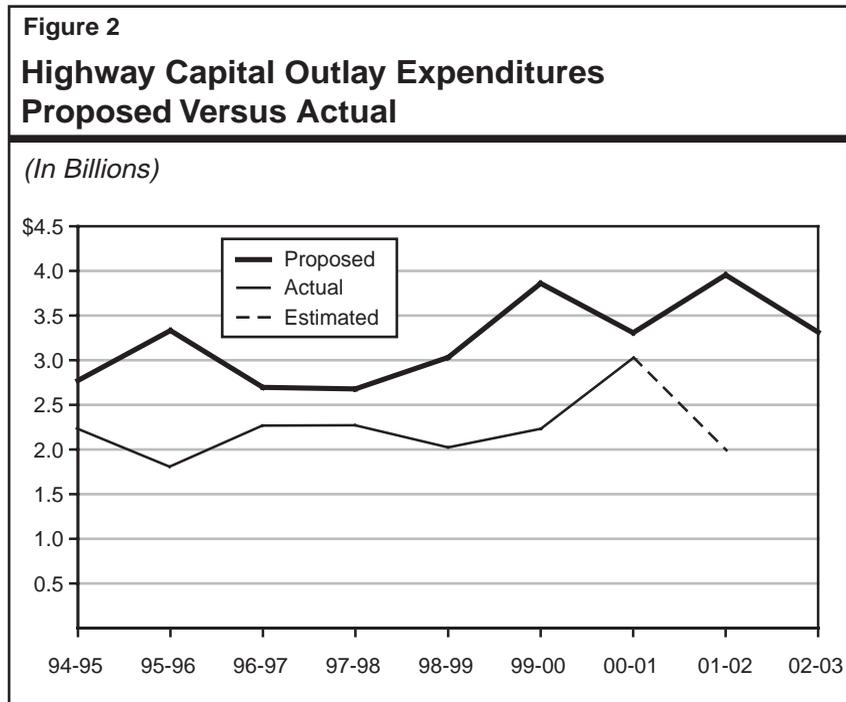
As shown in Figure 1, Caltrans expects that state funds would support about \$3.7 billion (50 percent) of highway program expenditures in the budget year. Federal funds would fund about \$3.4 billion (46 percent) of the program, while the remaining \$307 million (4 percent) would be paid through reimbursements, primarily from local governments.

Figure 1				
Department of Transportation				
Highway Transportation Budget Summary				
<i>(Dollars in Millions)</i>				
Program Elements	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Percent Change From 2001-02
Capital outlay support	\$1,052	\$1,306	\$1,307	0.1%
Capital outlay projects	3,024	2,004	3,313	65.3
Local assistance	1,590	1,809	1,740	-3.8
Program development	72	94	76	-18.4
Legal	87	64	64	0.9
Operations	200	164	146	-11.3
Maintenance	803	822	810	-1.5
Totals	\$6,828	\$6,263	\$7,457	19.1%
<i>State funds</i>	<i>\$3,112</i>	<i>\$3,186</i>	<i>\$3,730</i>	<i>17.1%</i>
<i>Federal funds</i>	<i>3,338</i>	<i>2,719</i>	<i>3,420</i>	<i>25.8</i>
<i>Reimbursements</i>	<i>378</i>	<i>357</i>	<i>307</i>	<i>-14.0</i>

Low Capital Outlay Expenditures Signal Project Delay

While the budget projects a large increase in highway capital outlay expenditures, past experience suggests that this projection is overstated. In fact, actual capital outlay expenditures averaged 75 percent of projected capital outlay expenditures over the past seven years. Most of the discrepancy appears to lie in the fact that Caltrans' projections assume that projects will proceed on schedule, while in reality large capital projects are often delayed.

Actual Capital Outlay Expenditures Below Projections. As noted above, the budget projects that Caltrans' highway capital outlay expenditures will grow from \$2 billion in 2001-02 to \$3.3 billion in 2002-03, a 65 percent increase. However, over the past seven years, Caltrans has consistently projected capital outlay expenditures above its actual expenditures. In fact, actual capital outlay expenditures averaged 75 percent of projected capital outlay expenditures from 1994-95 through 2000-01. On average, this is \$826 million per year lower than projected. The difference has fluctuated widely, ranging from \$1.6 billion below the projected amount in 1999-00 to a seven-year low of \$285 million below projected in 2000-01, as illustrated in Figure 2.



Capital Outlay Expenditure Projection Likely Too Optimistic. Discussions with Caltrans indicate that a primary reason for this large difference between projected and actual expenditures is that Caltrans' projections assume that projects will proceed according to project schedules at the time the budget is prepared. However, in reality capital outlay projects are often delayed.

Because Caltrans' projections are based on ideal schedules and past experience reveals large differences between projected and actual capital outlay expenditures, we believe that the budget's projected 65 percent increase in capital outlay expenditures is overstated.

Capital Outlay Support Request Will Be Amended

We withhold recommendation on \$1.3 billion requested for capital outlay support staff because staffing needs will be revised during the May Revision when more accurate information on workload for the State Transportation Improvement Program will be available.

Withhold Recommendation on Capital Outlay Support. The budget proposes \$1.3 billion to fund capital outlay support, a 0.1 percent increase from current-year estimated expenditures. However, the department indicates that it will provide new estimates in the spring as part of the May Revision. By that time, the department will have more accurate estimates regarding the amount of project development work that will be performed during 2002-03. Pending receipt of new workload estimates, we withhold recommendation on the department's capital outlay support request.

Information Technology Integration Plan Has Merit; Funding for Projects Is Premature

We recommend that \$75 million in State Highway Account funds requested for four information technology projects be rejected because the scopes, costs, and time frames for the projects will not be finalized until after the budget year (August 2003). (Reduce Item 2660-002-0042 by \$75 million).

The budget proposes \$77.4 million in one-time State Highway Account funds for various information technology (IT) projects. Specifically, the budget requests \$2.4 million to contract for the development of an IT Enterprise Integration Plan with the following components:

- A department-wide ("enterprise") IT strategic plan.
- A plan to implement four specific enterprise projects, as described below.

- A plan to integrate the four projects.
- A reestimation of the scopes, costs, and time-lines of the four projects.

Another \$75 million is requested to develop and implement four department-wide IT projects over three years. These include:

- A financial management system.
- A construction management system.
- A land management system.
- A contract payment system.

Information Technology Enterprise Integration Plan Warranted. In the *Analysis of the 2001-02 Budget Bill*, we reviewed the organizational and fiscal structure of IT at Caltrans. We found that IT implementation in the department is fragmented and lacks standardization and coordination. (Please see pages A-55 through A-69 of the *2001-02 Analysis*.) As such, we think that an integration plan as proposed would be useful to avoid any gaps and lack of coordination among the four areas that the department is proposing to implement. Accordingly, we recommend approval of the \$2.4 million requested for the integration plan.

Funding for Individual Projects Premature. Discussions with the administration indicate that the integration plan must be completed before beginning the four proposed department-wide projects. This is because the integration plan could result in changes in the scopes, costs, and time-lines for the projects. The administration anticipates the plan will be completed in August 2003. Because the final scopes, costs, and time-lines for the four department-wide projects would not be known for another 18 months and the projects would not begin until 2003-04, funding in 2002-03 is premature. Accordingly, we recommend that the \$75 million request for the automation projects be rejected.

Stormwater Management Cost Not All Justified

The budget requests \$23.4 million and 167.5 personnel-years for stormwater management activities. We recommend the deletion of \$838,000 because (1) training of contractors should be reimbursed and (2) the department did not provide any workload justification for \$600,000 of the request. (Reduce Item 2660-007-0042 by \$838,000 and increase reimbursement by \$238,000.)

The federal Clean Water Act requires that the discharge of pollutants into waters of the United States from any point source comply with a National Pollutant Discharge Elimination System (NPDES) permit. Pol-

lutant discharges from Caltrans facilities include various metals, petroleum products, pesticides, and general litter. In July 1999, Caltrans received a statewide NPDES permit from the State Water Resources Control Board (SWRCB) for stormwater discharges from the state highway system and any other Caltrans facilities. Prior to the statewide permit, Caltrans had nine regional permits that governed activities in its 12 districts. In order to comply with the statewide permit, Caltrans is required to annually submit a statewide plan for implementation. The SWRCB approved Caltrans' current Stormwater Management Plan (SWMP) in May 2001.

Budget Proposes \$23 Million in New Funding. In order to comply with requirements of the SWMP, the budget proposes an augmentation of \$23.4 million in the budget year (\$22.4 million ongoing) and 167.5 personnel-years. This augmentation would increase Caltrans' annual level of effort on prevention and cleanup of stormwater pollution from \$62 million and 168 personnel-years to \$85 million and 336 personnel-years. The proposal covers several types of activities, as indicated in Figure 3.

Figure 3	
New Stormwater Management Funding	
<i>(In Millions)</i>	
Program	2002-03 Request
Capital Outlay Support	
Training, reporting, compliance reviews	\$9.3
Legal	
Legal defense, permit compliance	0.6
Traffic Operations	
Encroachment permit review	0.9
Maintenance	
Mitigation activities	12.6
Total	\$23.4

Our review shows that overall the department needs additional resources to carry out its stormwater management responsibilities. However, as we discuss here and in the following section, we believe that part of the request is not adequately justified and other aspects require further review before the actual funding and staffing levels required are known.

Contractors Should Pay for State-Provided Training. Caltrans proposes to spend \$238,000 per year to instruct construction contractors on their stormwater pollution-prevention responsibilities. Caltrans must perform this activity to be in compliance with the SWMP. However, we believe that the private firms receiving this training would benefit economically by knowing what stormwater management activities contractors are required to perform in the course of constructing highway facilities. As such, we think that they should compensate Caltrans for the cost of developing and delivering the training. Therefore, we recommend that \$238,000 requested for this purpose be funded from reimbursements.

Some Activities Not Adequately Justified. Caltrans proposes to spend \$600,000 per year to review leases of highway rights-of-way (“airspace”) to make sure these leases do not worsen stormwater pollution. Caltrans indicated that these activities are required by the SWMP. Our review however, shows that the SWMP requires only a one-time review of all airspace leases, to be completed by January 1, 2002. It does not call for an annual review of all such leases. Furthermore, the department indicated that the review has indeed been completed. Thus, the requested amount will not be needed for 2002-03.

Ongoing Stormwater Management Costs Need Workload Justification

We recommend the adoption of budget bill language directing the Department of Finance to report to the Legislature on the results of its review of Caltrans’ stormwater management activities. Additionally, we recommend the adoption of budget bill language to provide \$13.5 million and 154 personnel-years from Caltrans’ budget-year request for various stormwater management activities on a one-time (rather than permanent) basis and to direct Caltrans to justify future requests based on the budget-year workload.

Finance Should Advise the Legislature of Review Findings. Of the \$23.4 million requested for stormwater management activities, \$250,000 is designated to reimburse the Department of Finance for an annual review. The review is intended to help the administration and the Legislature better evaluate the long-term cost implications of Caltrans’ compliance with the Clean Water Act. In order to ensure that the review findings are shared with the Legislature, we recommend the following budget bill language in Item 2660-007-0042:

Of the funds appropriated in this item, \$250,000 shall be used by the Department of Transportation to enter into an interagency agreement with the Department of Finance for an implementation review of the Department of Transportation’s stormwater management practices. The

Department of Finance shall provide a preliminary report of its findings to the Legislature by January 10, 2003 and a final report by July 1, 2003.

Level of Ongoing Funding Needs Further Review. Caltrans will have to implement various procedures to comply with its current SWMP. Some of the procedural changes will affect highway maintenance practices and therefore mitigation workload activities. However, Caltrans is at the current time uncertain as to the exact amount of workload or funding that will be required to implement these procedures. Thus, it is not able to provide workload justifications for \$850,000 requested for project-specific treatment controls and \$12.6 million requested for its highway maintenance program.

Without a better workload basis, we think that the requested amounts should not be approved as ongoing expenditures. Rather, the department should be required to justify these funds in future years based on workload experience. Therefore, we recommend that \$13.5 million and 154 personnel years requested for maintenance activities and project-specific treatment controls be funded as one-time expenditures, for 2002-03 only. Furthermore, we recommend the adoption of budget bill language that directs Caltrans to provide workload justification for any 2003-04 funding request for these purposes, as follows:

Item 2660-007-0042. Of the amount appropriated in this item, \$13,478,000 is provided for 2002-03 on a one-time basis. To the extent these expenditures are proposed in 2003-04, the Department of Transportation shall provide justification for the expenditures based on workload experience for 2002-03. Such justification shall be provided no later than January 10, 2003 as part of the Governor's budget proposal.

Fleet Greening Proposal Too Ambitious

We recommend a reduction of \$1 million requested for certain emission reduction strategies for Caltrans' vehicles because the costs of these actions outweigh the benefits. We further recommend budget bill language requiring the reversion of any unexpended funds proposed for diesel retrofit because it is uncertain that the proposed strategy would be verified by the Air Resources Board in time for it to be used. (Reduce Item 2660-031-0042 by \$1,036,000.)

The budget proposes one-time expenditure of \$10 million to reduce pollutant emissions in Caltrans' vehicles (referred to as "fleet greening"). This is the second year of Caltrans' fleet greening effort. In the current year, the Legislature provided \$20 million to perform similar activities.

Costs of Some Proposed Actions Outweigh the Benefits. Two actions Caltrans proposes in order to reduce emissions are the use of liquefied

petroleum gas (LPG) equipment in place of certain diesel equipment at a total cost of \$150,000 and the purchase of hybrid gas/electric passenger cars instead of gasoline-powered cars at a cost of \$886,000. While each of these actions would reduce pollutant emissions from these sources, our review shows that the costs of these actions outweigh the measurable benefits. Specifically, Caltrans estimates that buying certain LPG equipment instead of diesel would cost \$3,000 more per vehicle, but the value of the emissions reduction over the life of each vehicle would be less than \$400. Similarly, purchasing hybrid cars instead of the standard gasoline models would cost an extra \$5,500 per vehicle, but the estimated value of the emissions reduction and lower fuel costs over the life of the vehicle would be about \$2,300. We do not believe the state should pursue strategies that are not cost-effective. Therefore, we recommend that the Legislature deny \$1 million for these purchases.

Diesel Retrofit Money Cannot Yet Be Expended. Of the current-year funding for fleet greening, Caltrans planned to use \$11 million to retrofit diesel engines to reduce emissions of oxides of nitrogen (NOx). However, the Air Resources Board (ARB) has not yet verified and approved the technology the department planned to use as a viable NOx emission-reduction strategy, and Caltrans has therefore not been able to implement this portion of its fleet greening initiative. As of January 2002, the department has spent \$8.4 million on other actions to reduce vehicle emissions. It now plans to revert the funds it cannot expend.

The budget proposes providing \$5.5 million in the budget year for diesel engine retrofit and for staff overtime to oversee the retrofit work. At the time this analysis was prepared, ARB estimated that the verification of the proposed technology is unlikely to occur before early 2003. If the verification does not occur before the end of the budget year, Caltrans will again be unable to begin retrofitting diesel engines. To ensure that the proposed funds are not redirected to other purposes, we recommend the following budget bill language in Item 2660-031-0042:

Any portion of the \$5,494,000 appropriated in this item for diesel engine retrofit and staff overtime that is unexpended for the approved emission reduction purposes at the end of the fiscal year shall revert to the fund from which it was appropriated.

Encroachment Permit Fees Do Not Cover Costs

The fees Caltrans charges private companies for issuing encroachment permits cover only about two-thirds of the cost of the program. We recommend the enactment of legislation to require that the fees charged to private companies for encroachment permits cover the total cost of issuance.

Staff Augmentation Warranted by Workload Increase. Caltrans issues encroachment permits to governmental agencies and private companies for construction and nontransportation activities within the state highway system's right-of-way. Two years ago, the Legislature approved an increase of 34.5 personnel-years for two years to handle an increase in encroachment permitting workload. This augmentation was justified by a 22 percent increase in permitting workload from 1994-95 to 2000-01. Caltrans now projects that this increase in workload will be permanent rather than temporary, and therefore requests that the staff increase be made permanent. Our review of the workload data shows that the request is warranted.

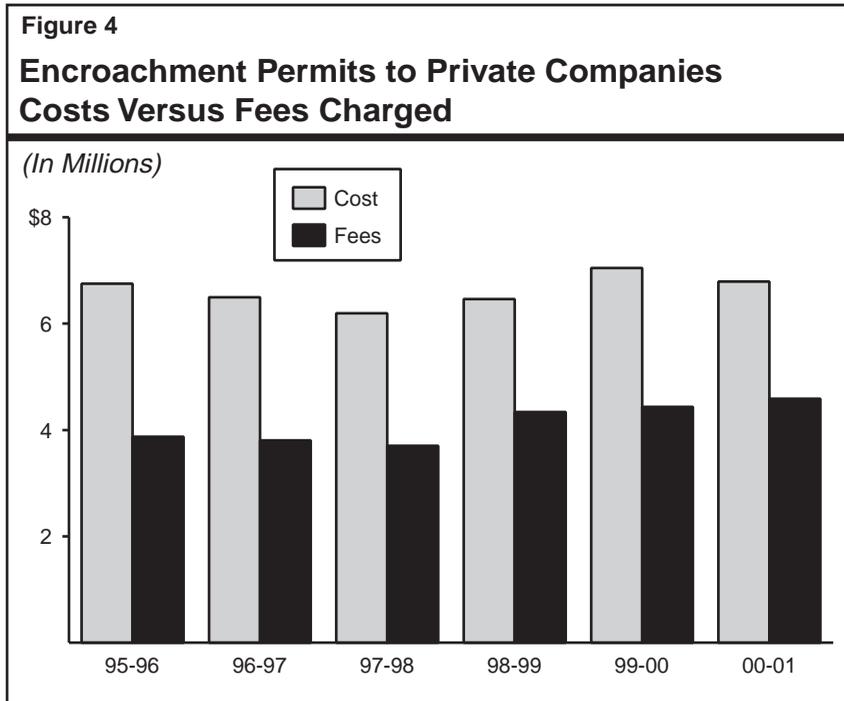
Fees Charged Do Not Cover Expenses. While state law forbids Caltrans from charging fees for encroachment permits granted to government agencies, it does allow the department to charge private companies for these permits, provided the total fees collected do not exceed the cost of reviewing permit applications from private companies. While Caltrans does charge private companies a fee for this service, our review shows that the total fees collected cover only about two-thirds of the cost of reviewing private-company permit applications. In fact, from 1995-96 through 2000-01, the average annual cost of issuing permits to private companies has been \$6.6 million, but the fees collected have averaged only \$4.1 million per year, as indicated in Figure 4. Over these six years, the state has provided \$15 million worth of this service to private companies free of charge.

Caltrans indicates that the reason for this discrepancy is that the department charges companies only for the time they spend reviewing permit applications and overseeing the permitted activities, along with related overhead, but not for other costs associated with reviewing permits, such as some travel costs and answering inquiries from private companies.

We believe that fees charged for a service provided by the state should cover the costs of that service. Therefore, we recommend the enactment of legislation directing the department to charge encroachment permitting fees to private companies that cover but do not exceed the total cost of providing this service.

PROJECT DELIVERY

Project delivery is arguably the most critical variable in Caltrans' mission to improve mobility. Because of concerns over project delays, the Legislature requires our office to report on the department's progress in delivering projects as they are scheduled for construction in the STIP and the State Highway Operation and Protection Program (SHOPP).



In the following section, we discuss a number of key issues related to project delivery, including STIP and SHOPP delivery in the 2000-01 year, project delivery for the seismic retrofit program, environmental review of STIP and SHOPP projects, and Caltrans' use of contractors.

Caltrans Project Delivery Mixed

In 2000-01, Caltrans delivered 97 percent of programmed State Transportation Improvement Program (STIP) projects, and almost 100 percent of programmed expenditures. However, in terms of the sheer number of STIP projects delivered, it dropped 62 percent from the previous year due to extensive rescheduling of projects by Caltrans prior to 2000-01. Additionally, the department delivered 94 percent of programmed State Highway Operation and Protection Program (SHOPP) projects, equivalent to 91 percent of programmed expenditures. Local agencies delivered 83 percent of programmed STIP projects and expenditures.

In the *Analysis of the 2001-02 Budget Bill*, we adopted the California Transportation Commission's (CTC's) definition of project delivery. This definition compares the number of projects that were allocated funding by CTC to the number of projects programmed in the STIP or SHOPP for delivery in that year. (Please see page A-37 of the *2001-02 Analysis*.)

Figure 5 summarizes the number of projects Caltrans delivered (“allocated funding”) compared to the number programmed in the STIP and SHOPP. Figure 6 shows delivery in terms of dollar volume.

Figure 5			
Caltrans Project Delivery by Number of Projects			
<i>2000-01</i>			
Program	Projects		Percent Delivered^a
	Programmed	Delivered	
STIP ^b	39	38	97%
SHOPP ^c	257	242	94
Totals	296	280	95%

^a Excludes expenditures for advanced projects.
^b State Transportation Improvement Program.
^c State Highway Operation and Protection Program.

Figure 6			
Caltrans Project Delivery by Expenditure			
<i>2000-01</i> <i>(Dollars in Millions)</i>			
Program	Expenditures		Percent Delivered^a
	Programmed	Delivered	
STIP ^b	\$215	\$215	100%
SHOPP ^c	1,212	1,107	91
Totals	\$1,427	\$1,322	93%

^a Excludes expenditures for advanced projects.
^b State Transportation Improvement Program.
^c State Highway Operation and Protection Program.

Caltrans Delivered 97 Percent of STIP Projects Programmed for 2000-01, But Many Fewer Than Previous Year. According to information provided by CTC, in 2000-01 Caltrans delivered 97 percent of STIP projects

that were programmed for delivery in that year, as shown in Figure 5. These are projects that primarily expand highway capacity. In terms of expenditures (Figure 6), the department delivered \$215 million, the same level as was programmed for delivery in 2000-01.

While the percentages noted above are commendable, the number of projects delivered in 2000-01 was far less than the number delivered in the previous year. In fact, the 38 delivered projects in 2000-01 represent a 62 percent drop from the 101 projects delivered in 1999-00. Likewise, the dollar value of delivered projects dropped 66 percent from \$636 million to \$215 million. Our review shows that Caltrans was able to deliver close to all of its commitment because in 1999-00 it rescheduled a record number of STIP projects to be delivered in later years. Specifically, \$788 million worth of projects were rescheduled, \$646 million of which was for projects originally programmed to be delivered in 2000-01. As a result, the delivery goal for 2000-01 shrank significantly. This practice has continued in the current year. Specifically, Caltrans rescheduled \$611 million worth of projects at the end of 2000-01, again reducing its STIP project delivery goal.

The SHOPP Project Delivery Remains Strong. With respect to SHOPP projects, the department delivered 242 projects, or 94 percent of the projects that were programmed for delivery. The SHOPP projects provide safety, operation, or rehabilitation improvements to the state highway system. In terms of funding allocations, the department delivered \$1.1 billion, or 91 percent of the amount in programmed funds. In general, SHOPP projects are far less complicated from a design standpoint and require less extensive environmental review. This makes them, in general, easier to deliver on schedule than STIP projects.

Department Delivered Some Projects Programmed for Different Years. Figures 5 and 6 only show delivery of projects programmed for 2000-01. They do not include the delivery of projects scheduled for delivery in other years. In 2000-01, the department delivered three projects ahead of schedule and four projects that had originally been programmed for delivery in 1999-00. With these projects, STIP delivery in 2000-01 totaled \$244 million. With respect to SHOPP projects, the department delivered seven projects that were advanced from future years and no projects from prior years.

We support the department's practice of advancing projects ahead of schedule when possible. However, we do not include these projects in our main calculations because the Legislature's primary concern has been how well Caltrans meets its *intended* delivery schedule, which more closely reflects its original priority of projects. Likewise, including delivery of delayed projects would not provide a true representation of Caltrans' project delivery.

Local Agencies Deliver 83 Percent of Programmed Expenditures. Under Chapter 622, Statutes of 1997 (SB 45, Kopp), local agencies are responsible for determining how to spend 75 percent of STIP funds. To the extent that local agencies decide to spend their share of STIP funds on highway capacity improvements, they have traditionally depended on Caltrans to deliver the projects. However, to the extent that they choose to spend their share of funds on transit projects or local road improvements, *they* are responsible for that delivery.

In 2000-01, local agencies delivered 569, or 83 percent, of the local street and road or mass transit projects programmed in the STIP for delivery during 2000-01. These projects totaled \$450 million. Like Caltrans, however, local agencies also delivered a significant amount of projects that were scheduled for different years. Specifically, local agencies delivered 170 projects from future and prior years, totaling \$65 million. These additional projects bring total delivery by local agencies to \$515 million.

Local Agencies Continue Strong Expenditure of Federal Funds. While their STIP project delivery did not match the percentages achieved by Caltrans, local agencies' expenditure of federal funds which they receive directly has improved significantly. In the first two years of the 1997 federal transportation act, the Transportation Equity Act for the 21st Century, local agencies underspent their allotment of federal funds by 41 percent and 57 percent, respectively. As a result, by October 1999, local agencies had accumulated \$1.2 billion in unexpended federal allocations. In 1999-00, however, local agencies markedly increased their expenditure of federal funds, obligating \$1.2 billion, or 154 percent of their share of federal funds. In 2000-01, local agencies obligated \$1.1 billion, or 124 percent of their share of federal funds. As a result, the amount of unexpended federal funds has been reduced to about \$600 million. This is a big improvement toward lowering the backlog to a reasonable level of between \$100 million and \$200 million.

Seismic Retrofit of Toll Bridges Delayed; Retrofit of Other Bridges Almost Complete

Phase 1 of the highway bridge seismic retrofit program is complete. Phase 2 is 98 percent complete, but work will not be completed on some bridges until 2008. Seismic retrofit of the state-owned toll bridges has been delayed.

Caltrans inspects all state and local bridges at least once every two years. Since 1971, when the Sylmar earthquake struck the Los Angeles area, Caltrans has had an ongoing bridge retrofit program. The retrofit program involves a variety of different improvements, depending on the

needs of the particular structure. The improvements include strengthening the columns of existing bridges by encircling certain columns with a steel casing, adding pilings to better anchor the footings to the ground, and enlarging the size of the hinges that connect sections of bridge decks to prevent them from separating during an earthquake.

Following the 1994 Northridge earthquake, Caltrans expanded its seismic retrofit program for state highway bridges, creating a Phase 1 and a Phase 2 program. Phase 1 included 1,039 bridges identified for strengthening after the 1989 Loma Prieta earthquake at a total cost of \$800 million, as shown in Figure 7. These projects were completed by May 2000. Phase 2 consists of an additional 1,155 bridges that were identified for strengthening following the Northridge earthquake. To date, Caltrans has completed the work on 1,133 (98 percent) of the Phase 2 bridges and estimates Phase 2 construction costs to be \$1 billion. However, Caltrans estimates some Phase 2 projects will not be completed until 2008 due to more complex retrofit and replacement work on a number of these bridges.

Figure 7 Highway Seismic Retrofit Program Scope and Progress		
<i>As of January 2002 (Dollars in Millions)</i>		
	Number of Bridges	
	Phase 1	Phase 2
Retrofit construction complete	1,039	1,133
Under contract for construction	—	4
Design not complete	—	18
Totals	1,039	1,155
Estimated construction cost	\$844	\$1,000
Construction complete target	2000	2008

Schedule Continues to Slip for Toll Bridge Retrofit. Caltrans is also retrofitting seven of the state’s toll bridges for seismic safety, as shown in Figure 8 (see next page). As Figure 8 indicates, the scheduled completion dates for the retrofit of several bridges are now much later than Caltrans’ original projections. (For the estimated costs of this retrofit work, please see the “Condition of Transportation Funds” in the “Crosscutting Issues” section of this chapter.)

Figure 8**Toll Bridge Seismic Retrofit Schedule Delays**

Bridge	Completion Date		Approximate Delay In Years
	Original	Revised	
San Francisco-Oakland Bay			
New east span	Winter 2004	Spring 2007	3.0
West span	Fall 2003	Summer 2008	5.0
Benicia-Martinez	Summer 1999	Winter 2002	2.5
Carquinez—eastbound	Winter 1999	Winter 2002	3.0
Richmond-San Rafael	Fall 2000	Spring 2005	4.5
San Diego-Coronado	Fall 1999	Winter 2002	2.0
San Mateo-Hayward	Fall 1999	Fall 2000	1.0
Vincent Thomas	Winter 1999	Spring 2000	1.0

Caltrans indicates that the delays in the retrofit work are due to numerous factors, and each bridge's delays are unique. For example, the east span of the Bay Bridge has been delayed more than three years from its original projected completion date. Caltrans indicates that this delay is due partly to the United States Navy's initial refusal to grant an encroachment permit to allow Caltrans to drill on Yerba Buena Island and partly to Caltrans' inability to release the bid for the first contract on the east span until a federal loan was approved.

The west span of the Bay Bridge, on the other hand, has been delayed almost five years from its original completion date, which Caltrans indicates is due in part to safety issues with the ongoing work on the bridge. As a further example, the Richmond-San Rafael Bridge was delayed four and a half years according to Caltrans because the department redesigned the retrofit schedule to reduce the potential for legal claims and to reduce the scope of work in environmentally sensitive locations during certain seasons. Because many of the factors causing delays are unanticipated, it is thus likely that Caltrans could encounter more delays as projects progress.

Completion of STIP Environmental Documents Has Improved, But SHOPP Completion Rate Has Declined

Caltrans has taken several steps to streamline its environmental review process. In 2000-01, Caltrans improved the completion of scheduled

State Transportation Improvement Program environmental documents. However, the completion rate for State Highway Operation and Protection Program environmental documents decreased sharply from the previous year.

One of the factors contributing to delays in project delivery is the cumbersome environmental review process. In recent years, the department has worked with state and federal agencies in an attempt to streamline the process.

Some Environmental Streamlining Actions Have Been Taken, But Much Work Remains. In July 2001, Caltrans made a formal proposal to the United States Department of Transportation (U.S. DOT) suggesting actions that both Caltrans and U.S. DOT could take to streamline environmental review. These suggestions included, among other things:

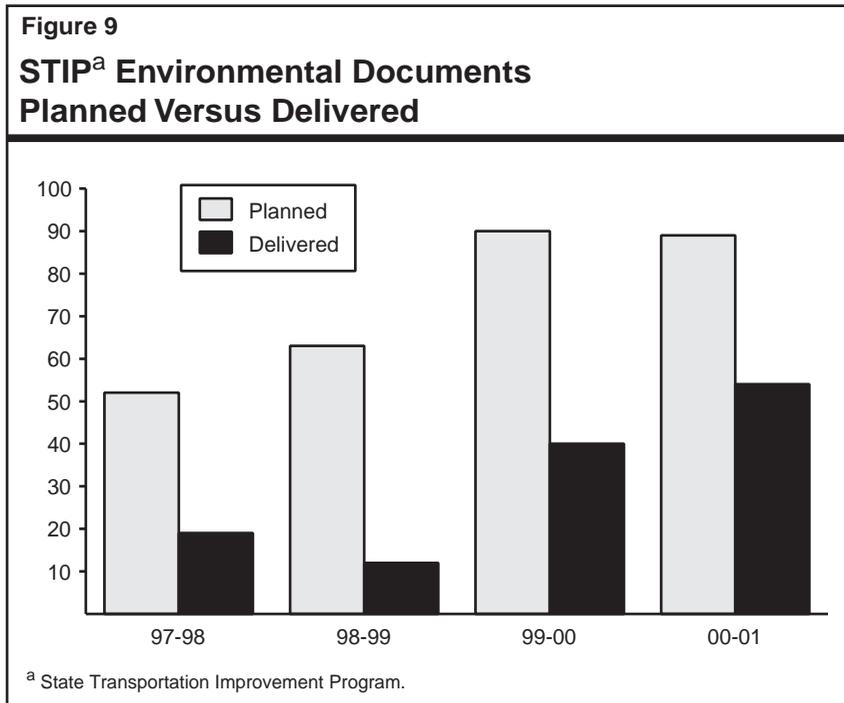
- Setting specific deadlines for Federal Highway Administration (FHWA) review of environmental documents.
- Expanding Caltrans' ability to coordinate directly with federal resource agencies as an agent of FHWA.
- Developing a formal tracking system for movement of environmental work products among Caltrans and federal agencies.
- Establishing a Caltrans environmental document quality assurance program to ensure that documents meet a minimum quality level before they are submitted to FHWA for review.

The U.S. DOT responded favorably to Caltrans' proposal and committed to work with Caltrans and federal resource agencies to further develop these recommendations and implement them once they were finalized. Caltrans indicates that work is currently progressing on several of the proposals, but it does not have a projected date as to when they will be finalized and implemented.

In addition to these streamlining efforts, beginning in 1999-00, Caltrans received funding for 22 positions at state and federal resource agencies to help expedite environmental review of Caltrans projects. As of January 2002, all but seven of these positions were filled.

Sixty-One Percent of STIP Environmental Documents Completed. Our review of the number of environmental documents completed for STIP projects last year reveals some improvement. Of 89 environmental documents the department planned to complete during 2000-01 (including some that were originally scheduled for prior years), 54 were completed. The remaining 35 rolled forward to 2001-02 and beyond. This completion rate (61 percent) represents an improvement over previous years, as indi-

cated in Figure 9. However, much work remains to be done to streamline delivery of environmental documents.



Environmental Document Delivery for SHOPP Projects Falls. While STIP environmental document delivery in 2000-01 improved over the previous year, delivery of environmental documents for SHOPP projects worsened. Specifically, Caltrans delivered 101 of 150 planned SHOPP environmental documents, for a 67 percent delivery rate. By comparison, the department was much more successful in 1999-00, delivering 190 SHOPP environmental documents compared to its planned delivery of 164 documents. Caltrans managed to exceed its goal in that year by advancing several documents that were originally scheduled to be completed in future years.

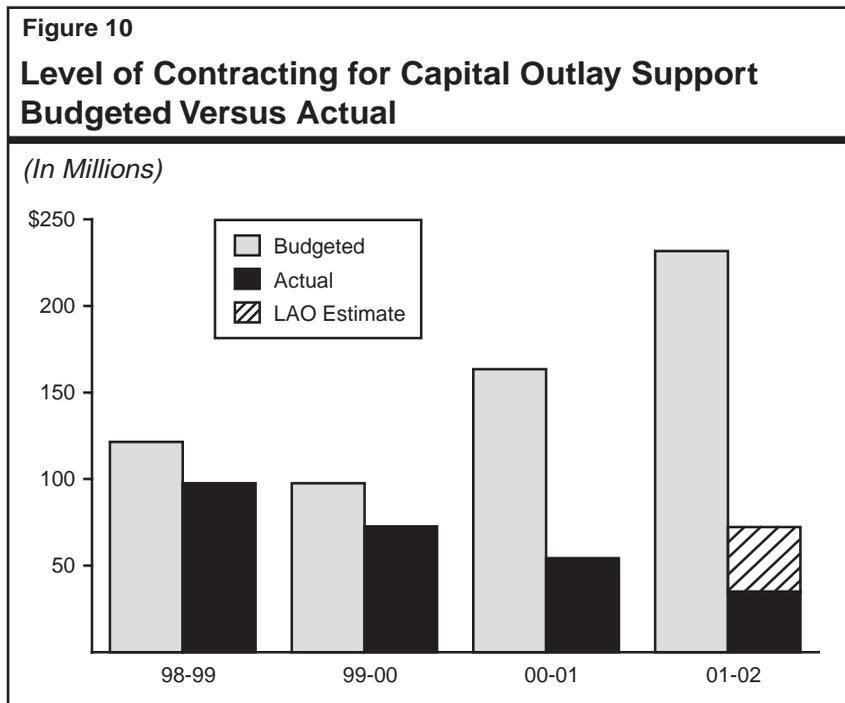
**Limited Use of Private Contracting for Project Delivery;
 Funds Redirected to Other Uses**

Although Caltrans projected large increases in contracting in 2000-01, the level of contracting for engineering work fell far short of the amount budgeted. A substantial part of the funds not expended for contracting

was redirected to other purposes. We recommend amending budget bill language to direct the department to revert all funds not used for private contracting.

Caltrans uses private consultants on an ongoing basis to perform various aspects of project development and design work for which Caltrans has limited or no expertise, such as in the area of hydraulics and seismic retrofit of certain structures. Proposition 35, passed by the voters in November 2000, broadened Caltrans’ ability to contract out for architectural and engineering services under certain circumstances.

Level of Contracting Substantially Lower Than Budgeted. Following the passage of Proposition 35, Caltrans projected a large increase in its level of contracting for capital outlay support work. As illustrated in Figure 10, for 2000-01, Caltrans’ engineering contract budget was \$163 million, a 68 percent increase over the previous year. However, our review shows that actual contracting expenditures for that year were significantly lower—only \$54 million. Likewise, \$232 million was budgeted for contracting in the current year, but Caltrans has expended only \$35 million through December 2001. Based on this level of expenditure, we estimate that Caltrans will spend only about \$70 million on contracting by the end of the current year.



Contracting Does Provide Flexibility. Caltrans indicates that the largest single factor accounting for the \$109 million difference between its budgeted and actual level of expenditures on contracting in 2000-01 was an overestimate of the amount of Traffic Congestion Relief Program (TCRP)-related work the department would be called upon to perform. Thus, budgeting this activity as contract work rather than using state staff gave Caltrans the flexibility to not expend funds on support for projects it could not yet begin.

Some Money Used for Other Purposes. While Caltrans did not spend the funds on contracting, it did not revert all of them either. In fact, of the \$109 million not spent on private contracting in 2000-01, Caltrans reverted only \$77 million. The remaining \$32 million was redirected to cover other Caltrans costs. We believe that Caltrans' ability to redirect substantial amounts of funds not used for contracting reduces the Legislature's ability to hold Caltrans accountable for the use of funds approved in the budget.

Recommend Budget Language to Limit Caltrans Ability to Redirect Funds. The proposed budget bill includes language that requires Caltrans to revert funds budgeted for architectural and engineering contracts that are encumbered but unexpended at the end of 2002-03. To provide greater accountability, we recommend that this language in Item 2660-001-0042 be revised to direct Caltrans to revert *all* unexpended contracting money:

The funds appropriated in Schedule (2) for specialty consultant contract resources and for architectural and engineering consultant contract resources for capital outlay support that are unencumbered for that purpose or that are encumbered for such contracts but unexpended at the end of the fiscal year shall revert to the fund from which they were appropriated.

INTERCITY RAIL PROGRAM

The intercity rail program was established to provide motorists traveling long distances with a safe, efficient, and cost-effective transportation alternative to the automobile. Currently, the state supports and funds intercity rail passenger services on three corridors—the Pacific Surfliner (formerly the San Diegan) in Southern California, the San Joaquin in the Central Valley, and the Capitol in Northern California. All train routes are supplemented and integrated by a dedicated feeder bus service.

The Capitol service is administered by the Capitol Corridor Joint Powers Authority (CCJPA), which started on July 1, 1998, following the enactment of the Intercity Passenger Rail Act of 1996 (Chapter 263, Statutes of 1996 [SB 457, Kelley]). Caltrans administers service on the remaining two

rail corridors. In addition to providing for the operation of service, Caltrans and CCJPA also plan for the capital improvements needed to upgrade the respective corridors to provide expanded service. Both Caltrans and CCJPA contract with Amtrak for the operation and maintenance of the intercity rail service.

Budget Requests No New Service and No Increase in Baseline Funding. For 2002-03, the budget requests \$73.1 million for Amtrak to provide intercity rail service. The request includes \$23.6 million for the Capitol Corridor, \$28.5 million for the San Joaquin, and \$21 million for the Pacific Surfliner. These are the same amounts as budgeted for 2001-02. In addition, Caltrans will spend \$24.9 million for track improvements. These expenditures are funded from a \$91 million appropriation in the current-year budget.

Caltrans' state rail plan published in October 2001 calls for service expansions on two of the three intercity rail lines (the Capitol and the Pacific Surfliner) in 2002-03, but the department is not proposing funding for new train service at this time due to a decline in projected revenues in the Public Transportation Account. (Please see the "Condition of Transportation Funds" in the "Crosscutting Issues" section for a discussion of the account condition.) The department indicates that it will re-evaluate its revenue projections and may revisit this issue this spring.

Costs for Existing Intercity Rail Service Will Be Updated

We withhold recommendation on \$73.1 million requested to support existing intercity rail service because the amount needed will likely be different from current estimates. Specifically, more current cost estimates will be forthcoming from Amtrak in March 2002. We recommend that the department provide the updated cost estimates at budget hearings. Based on that information, the Legislature should adjust the amount of support for intercity rail services accordingly.

The budget requests \$73.1 million to support Amtrak's costs for continuation of intercity rail services in 2002-03. The budget request is based on cost estimates provided by Amtrak in 2001. We understand that Amtrak will provide Caltrans with updated estimates in March 2002. Accordingly, we withhold recommendation on \$73.1 million for intercity rail services. We further recommend that Caltrans provide the updated cost estimates at budget hearings and that the Legislature adjust the proposed appropriation based on the updated information.

FINDINGS AND RECOMMENDATIONS

Transportation

Analysis

Page

Crosscutting Issues

Condition of Transportation Funds

- A-13 ■ **Substantial Transportation Funds to Be Loaned to the General Fund.** The budget proposes loaning \$672 million from the Traffic Congestion Relief Fund to the General Fund.

- A-15 ■ **Balance of TCRF Likely Higher; SHA Loan Needed May Be Smaller.** Recommend adoption of budget bill language limiting the transfer from the State Highway Account (SHA) to the Traffic Congestion Relief Fund (TCRF). Further recommend adoption of budget bill language allowing a larger transfer from TCRF to the General Fund if TCRF expenditures are lower than expected and the General Fund condition warrants.

- A-17 ■ **Expenditure Projection for SHA Is Optimistic; Fund Balance Likely to Remain Higher.** The budget projects an SHA cash balance of only \$84 million at the end of the budget year. Based on past expenditure trends, we find it unlikely that the balance will fall to this level.

Analysis

Page

- A-19 ■ **Toll Bridge Seismic Retrofit Funding Augmented, But Potential for Further Cost Overruns Remains.** Despite increased funding to cover higher projected costs and potential future cost overruns, toll bridge seismic retrofit costs could still exceed the overrun coverage in future years.

- A-22 ■ **Budget Projects Substantially Less Public Transportation Account (PTA) Funds.** As a result of a combination of factors, the budget projects substantially less PTA funds to be available in the current and budget years than originally anticipated.

- A-24 ■ **Tax Regulation to Reduce PTA Revenues Further; Account Faces Shortfall.** Recommend that the planned loan from PTA be reduced by \$24 million in order to avert a PTA shortfall.

- A-25 ■ **PTA Faces Funding Pressure Until 2007-08.** The combination of loans from the PTA, deferral of transfers of gasoline sales tax revenues into PTA, and expanded diesel sales tax exemptions will likely place pressure on PTA for the next few years.

Motor Vehicle Account Condition

- A-26 ■ **Account Faces Deficit in Budget Year Without Corrective Activities.** Increased costs for security activities, together with other Motor Vehicle Account (MVA) expenditures, will result in an MVA deficit in 2002-03 if no corrective actions are taken.

- A-29 ■ **Proposed MVA Use Raises Important Issues.** The MVA is not an appropriate funding source for security activities on an ongoing basis.

Analysis**Page**

- A-30 ■ **Ongoing Protective Services Should Be Funded With Mix of Funds.** Recommend that ongoing protective service and security activities be funded with a combination of General Fund, MVA, and reimbursements. Further recommend the adoption of supplemental report language directing the California Highway Patrol, in cooperation with the Department of Finance, to prepare a cost-allocation study for future budgets for apportioning ongoing protective services costs.

Enhanced Security Antiterrorism Programs

- A-35 ■ **State Role and Responsibilities Need Clear Definition.** Recommend that the Legislature determine whether it is the responsibility of the state to protect private and nonstate facilities on an ongoing basis.
- A-36 ■ **Level of Federal Funding Remains in Doubt.** Withhold recommendation on \$89.6 million requested for enhanced security until the May Revision, when the amount of federal funds available will be better known. Further recommend the adoption of budget bill language to restrict the California Highway Patrol (CHP) from using funds requested for overtime for tactical alerts to pay for regular overtime.
- A-37 ■ **Expenditure Priorities Needed for Additional Federal Funds; Legislative Review Should Be Provided.** Recommend that the Department of Finance provide the Legislature by the time of the May Revision an expenditure plan that describes the administration's priorities for the use of \$176 million in anticipated additional federal funds. Further recommend that a separate control section be added that would allow the Director of Finance to expend any portion of the

Analysis

Page

anticipated federal funds in accordance with the expenditure plan, upon 30-day notification of the Legislature.

- A-39 ■ **State Should Develop Long-Term Funding Plan for Protective Services.** The Legislature would need to address the ongoing funding of non-CHP security activities.

Department of Transportation

Highway Transportation

- A-41 ■ **Budget Proposes Major Increase in Highway Program Expenditures.** The budget proposes expenditures of \$7.5 billion for the highway transportation program, about \$1.2 billion, or 19 percent, more than estimated current-year expenditures. This includes a 65 percent increase in proposed capital outlay expenditures.
- A-43 ■ **Low Capital Outlay Expenditures Signal Project Delay.** While the budget projects a large increase in highway capital outlay expenditures, past experience suggests that this projection is overstated.
- A-44 ■ **Capital Outlay Support Request Will Be Amended.** Withhold recommendation on \$1.3 billion requested for capital outlay support staff because staffing needs will be revised during the May Revision.

Analysis**Page**

- A-44 ■ **Information Technology Integration Plan Has Merit; Funding for Projects Is Premature. Reduce Item 2660-002-0042 by \$75 Million.** Recommend reduction because the scopes, costs, and timeframes for four information technology projects will not be finalized until August 2003.
- A-45 ■ **Stormwater Management Cost Not All Justified. Reduce 2660-007-0042 by \$838,000 and Increase Reimbursement by \$238,000.** Recommend the deletion because (1) training of contractors should be reimbursed and (2) the department did not provide any workload justification for \$600,000 of the request.
- A-47 ■ **Ongoing Stormwater Management Costs Need Workload Justification.** Recommend the adoption of budget bill language directing the Department of Finance to report to the Legislature on the results of its review of Caltrans' stormwater management activities. Further recommend the adoption of budget bill language to provide \$13.5 million for stormwater management activities on a one-time basis and direct Caltrans to justify future requests based on the budget-year workload.
- A-48 ■ **Fleet Greening Proposal Too Ambitious. Reduce Item 2660-031-0042 by \$1,036,000.** Recommend reduction because the costs of the proposed emission reduction strategies outweigh the benefits. Further recommend budget bill language requiring the reversion of any unexpended funds proposed for diesel retrofit because the Air Resources Board may not verify the proposed strategy in time for it to be used.

Analysis

Page

- A-49 ■ **Encroachment Permit Fees Do Not Cover Costs.** Recommend the enactment of legislation to require that the fees charged to private companies for encroachment permits cover the total cost of issuing these permits.

Project Delivery

- A-51 ■ **Caltrans Project Delivery Mixed.** In 2000-01, Caltrans delivered 97 percent of programmed State Transportation Improvement Program (STIP) projects, and 94 percent of programmed State Highway Operation and Protection Program (SHOPP) projects. Local agencies delivered 83 percent of programmed STIP projects and expenditures.
- A-54 ■ **Seismic Retrofit of Toll Bridges Delayed; Retrofit of Other Bridges Almost Complete.** Phase 1 of the highway bridge seismic retrofit program is complete. Phase 2 is 98 percent complete, but work will not be completed on some bridges until 2008. Seismic retrofit of the state-owned toll bridges has also been delayed.
- A-56 ■ **Completion of STIP Environmental Documents Has Improved, But SHOPP Completion Rate Has Declined.** In 2000-01, Caltrans improved its completion of scheduled STIP environmental documents. However, the completion rate for SHOPP environmental documents decreased sharply from the previous year.
- A-58 ■ **Limited Private Contracting Used for Project Delivery; Funds Redirected to Other Uses.** Recommend amending budget bill language to direct the department to revert all funds not used for private contracting.

Analysis

Page

Intercity Rail

- A-61 ■ **Costs for Existing Intercity Rail Service Will Be Updated.** Withhold recommendation on \$73.1 million requested to support existing intercity rail service because the amount needed will likely be different from current estimates.

