

May 15, 2016

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

LAO 
75
YEARS OF
SERVICE

2016-17 Capital Outlay Support Budget Request





Background

- Capital Outlay Support (COS) Is Required on Capital Projects.*** The Department of Transportation (Caltrans) is responsible for maintaining and repairing the state highway system, which it often does through capital outlay projects. Costs for projects include capital outlay (costs incurred by construction contractors for materials and labor to construct a project) and COS (the staff support necessary to deliver the project).

- COS Activities Performed at Each Project Phase.*** During each phase of a transportation project—environmental, design, right of way, and construction—Caltrans performs COS activities. For example, in the design phase COS staff perform engineering analyses and develop plans and drawings. COS staff also procure necessary rights-of-way and inspect the work of construction contractors. In addition, COS staff oversee state highway projects that are led by local agencies rather than Caltrans. In any given year, the COS program can work on a couple thousand transportation projects.

- COS Resources Are Primarily State Staff.*** The program's staff resources include 90 percent from permanent state staff and the remaining 10 percent from private consultants.



Governor's 2016-17 COS Budget Request

- Overview of COS Request.** The Governor's May Revision requests a total of 10,389 full-time equivalent (FTE) staff resources and about \$1.9 billion for the COS program in 2016-17—an increase of 686 FTEs and \$165 million compared to the 2015-16 level. The requested resources would support (1) the baseline level of workload based on existing project funding and (2) increased workload that the department assumes would result from the Governor's proposed transportation funding package, which is estimated to provide an annual increase of \$3.6 billion.
- Baseline COS Request.** For workload associated with existing project funding, the Governor's May Revision requests 9,512 FTEs and about \$1.8 billion.

 - This amount reflects a reduction of 191 FTEs from the current-year level through attrition.
 - The savings from the reduced FTEs are more than offset by an increase in funding to “true up” funding levels with actual staff costs, resulting in a net increase of \$9 million from the current year. According to Caltrans, many of its COS staff are actually paid more than the previously assumed average cost of an FTE.
- Request for Additional COS Resources Related to Governor's Proposed Funding Package.** The Governor's May Revision also requests an increase of 877 FTEs and \$156 million above the baseline level for COS to support projects that would be funded from the estimated increase in transportation funding resulting from the Governor's proposed funding package. Specifically, the request includes increases of 352 state staff positions, 81 FTEs from overtime, and 444 FTEs from private consultants.



LAO Assessment— Baseline COS Budget Request



Makes Progress on Bringing Staffing in Line With Workload . . .

- In our May 2014 report *The 2014-15 Budget: Capital Outlay Support Program Review*, we found that the COS program was significantly overstaffed. Similarly, a more recent analysis by Caltrans of a sample of projects found that the department overestimated the COS resources needed over the life of many individual projects.
- Over the last couple of years, some progress has been made to bring the size of the COS program in line with workload. For example, the COS program was reduced by about 178 FTEs from attrition in 2015-16. The Governor's COS baseline budget request for 2016-17 would further reduce the program by an additional 191 FTEs.



. . . But Continues to Overstate Staffing Needs

- However, the recent and proposed COS staffing reductions are not sufficient to bring staffing levels in line with current workload in 2016-17 (assuming no significant increase in available program funding).
- In addition to accounting for the above reductions, we are evaluating updated data from Caltrans on its projected level of funding available for capital projects in the coming years under current law. The department is now projecting a level of funding that is significantly higher than it previously projected would be available for capital projects. While we are still in the process of evaluating the available data, it appears that the COS program remains significantly overstaffed—by at least 1,000 FTEs but potentially over 2,000 FTEs.



LAO Assessment— Funding Package Augmentation Request



Premature to Approve Additional COS Resources Prior to Adoption of Funding Package

- The level and type of staff necessary for the COS program depends on the (1) level of transportation funding available, (2) types of projects that such funding would support (such as maintenance versus major reconstruction projects), and (3) extent to which the funding is provided on a one-time or ongoing basis.
- While the Legislature has been considering various proposals to increase funding for transportation projects (including the package proposed by the Governor) as part of a special legislative session, it has not adopted any such proposals at this time. Thus, we find it is premature to approve additional COS resources as proposed by the Governor until a specific transportation funding proposal is adopted.



Increased COS Workload Not Likely to Occur in 2016-17

- Even if the Legislature approves a significant increase in transportation funding from new revenues, it appears unlikely Caltrans would experience a significant increase in COS workload in 2016-17.
- This is because the level of new transportation revenues collected in the budget year would be limited. In fact, under the Governor's funding package, the state would not begin collecting additional revenue until January 2017 (the latter half of 2016-17). Moreover, initial planning work on projects typically takes about a year to complete and must be complete before COS work can begin.



LAO Assessment— Funding Package Augmentation Request

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Better Information Is Needed Before Approving an Augmentation

- We have previously noted that the Legislature lacks the details necessary to fully evaluate the staffing needs of the COS program. More detailed information will be particularly important if the Legislature considers increasing the COS program to account for higher workload levels that would result from an increase in funding available for transportation projects.
- For example, Caltrans has not identified the level of workload that it can absorb with existing staff, nor has it been able to identify the classification or location of potential new positions based on the type of projects Caltrans plans to construct under the Governor's proposal.



LAO Recommendations



Reject Proposed Additional COS Resources for 2016-17.

Even if the Legislature approves new transportation funding in the near future, it is unlikely that this would result in higher COS workload in 2016-17. Accordingly, we recommend that the Legislature reject the proposed increase of 877 FTEs related to the Governor's funding package.



Approve Baseline COS Level if Intention Is to Provide New Funding.

If the Legislature intends to approve new transportation funding in the near future, we recommend approving the requested baseline level of COS resources. This approach would allow Caltrans to maintain COS program staff that could be needed to implement a higher level of workload associated with increased funding in future years.



Consider Further Reducing Baseline COS Program if No New Funding Is Provided.

Without an increase in funding for transportation projects, the COS program will continue to be overbudgeted. Thus, if a funding increase is not provided in the near future, we recommend that the Legislature consider greater reductions to the baseline COS program than proposed by the Governor. Because it would be difficult to address the COS overstaffing problem in one year, we think that a multiyear approach to reducing the COS program is appropriate. Such a plan should balance the need for a thoughtful approach to reducing the program with the need to spend transportation funds efficiently.



LAO Recommendations

(Continued)

- Require More Information Beginning in 2017-18.*** We recommend that the Legislature require Caltrans to provide along with its 2017-18 COS budget request a more detailed plan for staffing the COS program that (1) identifies the level of new workload Caltrans can absorb with existing staff, (2) considers the use of temporary staff resources and private consultants to address temporary workload such as project backlogs, and (3) provides a multiyear staffing plan that includes the location and classification of staff needed based on the type of projects Caltrans plans to construct with the new funds. In order for the Legislature to have enough time to review the plan, we also recommend that the Legislature require Caltrans to provide the plan and COS budget request as part of the Governor's January budget for 2017-18, rather than next May.