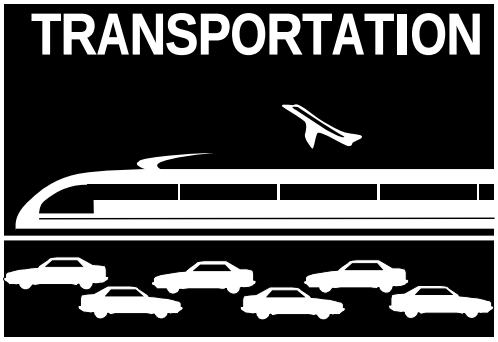


MAJOR ISSUES (February 1994)

%***State Transportation Program Faces $3.5 Billion Funding Gap.*** The state is short at least $3.5 billion to carry out all the transportation projects scheduled in the 1992 State Transportation Improvement Program (STIP) and to retrofit toll bridges against earthquakes. This funding gap will increase by at least $1 billion if the rail bond measure on the November ballot is defeated or other events occur. Short of increasing revenues, the state will have to stretch out the delivery of transportation projects in order to close the gap. (See page A-14.)

%***Surcharge Should Be Extended to Fund Additional Highway Patrol Officers.*** Since 1981, a $1 vehicle registration surcharge has been used to provide funds to support CHP traffic officer positions. The surcharge will expire January 1, 1995. We recommend that the fee be extended permanently because without it the state will not be able to sustain the CHP traffic officer force at the proposed 1994-95 level. (See page A-22.)

%***Northridge Earthquake Will Affect Caltrans' Program.*** The recent earthquake will likely result in an expansion of the seismic retrofit program because some of the damaged transportation structures had previously been considered safe. Caltrans will need additional staff to handle any additional seismic retrofit and earthquake repair work. (See pages A-32 through A-35.)

%***Caltrans Plans Staffing Reductions Due to Management Efficiencies.*** By implementing unspecified management efficiencies,

the department proposes to reduce staff by 634 personnel-years and save $56 million while maintaining the same level of output. The cutbacks will primarily affect the highway maintenance function. If anticipated efficiencies do not materialize, work would be deferred to later years. (See page A-43.)

%***Department of Motor Vehicles Reevaluating Botched Database Project.*** The department's effort to redesign its driver license and vehicle registration database has been defeated by inadequate planning and oversight and technical inexperience. The DMV has committed $40 million to an approach that it has been unable to implement. The department is now developing a revised project plan that may involve abandoning its initial approach. (See page A-54.)

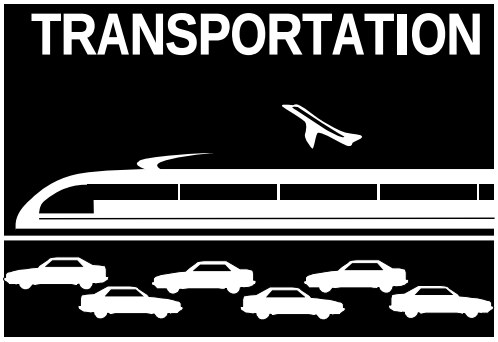
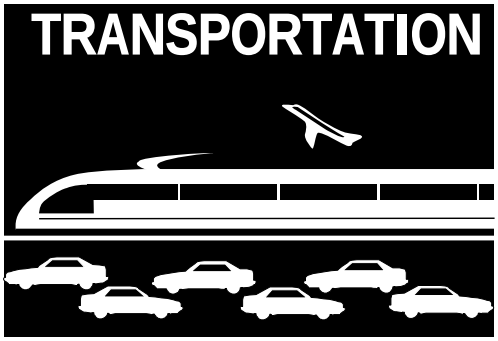


TABLE OF CONTENTS



OVERVIEW

Total expenditures from state funds for transportation programs are proposed to be higher in 1994-95 than estimated current-year expenditures. The increase is due mainly to increased funds allocated to local governments for highways and for transit operating assistance. Additionally, the budget projects that the funding for local streets and roads will be higher in 1994-95 as a result of higher gas tax revenues subvened to local governments.

For traffic enforcement, the budget proposes a significant increase in the expenditures of the California Highway Patrol—primarily due to a 130 position increase in the number of traffic officers. The expenditure level of the Department of Motor Vehicles is proposed to remain relatively the same as in the current year.

The budget proposes total state expenditures of about $4.7 billion for transportation programs in 1994-95. This is an increase of $309.4 million, or 7.1 percent, over estimated expenditures in the current year.

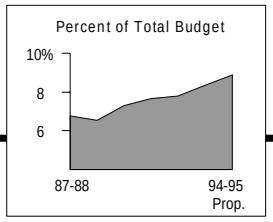
Figure 1 shows that state-funded transportation expenditures increased by $2.0 billion since 1987-88, representing an average annual increase of 8.3 percent. When adjusted for inflation, these expenditures increased by an average of 4.9 percent annually. In addition, Figure 1 shows that transportation expenditures have increased as a share of total state expenditures over the period. This change is largely the result of the passage of the *Transportation Blueprint* legislation in 1990 which provided additional state funds for highway and mass transportation programs. In 1994-95, proposed transportation expenditures will constitute about 8.9 percent of all state expenditures.

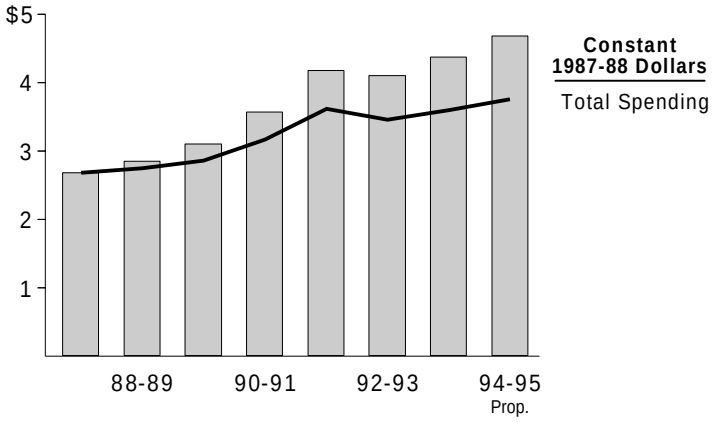
Of the 1994-95 state transportation expenditures, $3.6 billion is proposed for programs administered by the state, and about $920 million is for subventions to local governments for streets and road purposes. Another $154.3 million is projected to be used for debt service payments on rail bonds issued under Propositions 108 and 116 of 1990.

Figure 1

Transportation Expenditures
Current and Constant Dollars
1987-88 Through 1994-95

All State Funds (In Billions)





SPENDING BY MAJOR PROGRAMS

Figure 2 shows spending for the major transportation programs in detail. It shows that the budget proposes expenditures of $5.9 billion (all funds) for the Department of Transportation (Caltrans) in 1994-95—which is essentially flat compared to current-year expenditures. As Figure 2 shows, the budget proposes an increase of about $160 million in state-funded expenditures and $56 million in reimbursements. However, the budget anticipates these increases to be more than offset by a decrease of $238 million in federal funds.

Spending for the California Highway Patrol (CHP) is proposed to increase in 1994-95 by $77.2 million, about 12 percent. The increase is due primarily to funding of 130 currently vacant traffic officer positions,

improving the telecommunications system, and expanding the operation hours of truck weigh and inspection stations.

For the Department of Motor Vehicles (DMV), the budget proposes essentially the same expenditure level for 1994-95 as in the current year. The proposed expenditure level of $522.1 million results from an increase in workload related to the collection of social security numbers and for the implementation of various recently enacted legislation, partially offset by a reduction in ongoing workload.

Figure 2

Transportation Budget Summary
Selected Funding Sources
1992-93 Through 1994-95

(Dollars in Millions)

	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Change From 1993-94 Amount	Change From 1993-94 Percent
Department of Transportation					
State funds	$2,468.7	$2,478.2	$2,638.1	$159.9	6.5%
Federal funds	1,957.5	2,559.0	2,321.1	-237.9	-9.3
Reimbursements	446.3	909.2	965.5	56.3	6.2
Totals	**$4,872.5**	**$5,946.4**	**$5,924.7**	**-$21.7**	**-0.4%**
California Highway Patrol					
Motor Vehicle Account	$565.7	$615.1	$680.6	$65.5	10.6%
Other	36.9	41.4	53.1	11.7	28.3
Totals	**$602.6**	**$656.5**	**$733.7**	**$77.2**	**11.8%**
Department of Motor Vehicles					
Motor Vehicle Account	$403.2	$463.3	$337.8	-$125.5	-27.1%
Motor Vehicle License Fee Account	58.5	33.5	165.4	131.9	393.7
Other	18.8	20.5	18.9	-1.6	-7.8
Totals	**$480.5**	**$517.3**	**$522.1**	**$4.8**	**0.9%**
Special Transportation Programs					
Transportation Planning and Development Account	**$55.0**	**$54.3**	**$83.3**	**$29.0**	**53.4%**

Additionally, the budget proposes an increase in the State Transportation Assistance (STA) program in 1994-95. The STA program provides funds to local transportation agencies to operate their public mass transit systems. Annual funding of the program is determined based on statutory formula and the level varies depending on anticipated revenues into the Transportation Planning and Development (TP&D) Account. For the current year, STA funding was reduced in order to allow TP&D Account

funds to be used to pay rail bond debt service. For 1994-95, the budget proposes funding the STA program at the level determined by the statutory formula.

MAJOR BUDGET CHANGES

Figure 3 presents the major budget changes proposed for 1994-95 in various transportation programs.

Figure 3

Transportation
Proposed Major Changes for 1994-95
All Funds[a]

Department of Transportation	Requested $5.9 billion : Decrease: $21.7 million (-0.4%)

- $215 million in toll revenues for toll bridge capital improvements, including seismic retrofit
- $197 million in local assistance for highway activities
- $60 million in reimbursements for highway design and capital outlay

(+)

- $11.5 million for additional transportation planning and research activities
- $8.3 million to expand intercity rail passenger services and eliminate grade crossing hazards
- $7.4 million to accommodate increased highway maintenance workload
- $5 million to fund new Job Opportunities program

- $372.5 million in federal funds for highway design and capital outlay
- $132 million in grants for rail capital improvements

(−)

- $56 million in departmental support to reflect increased efficiencies
- $5.6 million in highway project design and development

Continued

California Highway Patrol	Requested:	$733.7 million
	Increase:	$77.2 million (+11.8%)

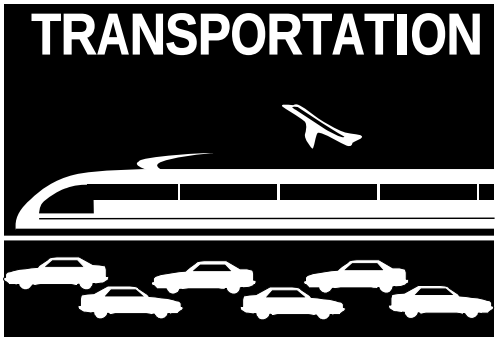
- $10.7 million to fund 130 vacant traffic officer positions
- $4 million for telecommunications and automation of communications system
- $4 million for Interstate 5 dust storm-related judgments and settlements
- $2.8 million for various reimbursed activities
- $1.3 million to expand operation hours of truck weigh and inspection stations

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

As the figure shows, the budget proposes an increase of $215 million in toll revenues for capital improvements, including seismic retrofit, on state-owned toll bridges. The budget also proposes an increase of $197 million in local assistance for highway improvements, and increased reimbursements to Caltrans for highway design and capital outlay. For 1994-95, the budget also requests an expansion of the intercity rail passenger service, and establishment of a new Job Opportunities program with the goal of creating new jobs.

In contrast to these increases, the budget projects that less federal funds will be available for the highway transportation program. In addition, the budget proposes a drop of $132 million in grants for rail capital improvement below the current-year level as a result of the lack of rail bond funds. The budget further proposes a reduction in Caltrans staffing of $50 million to reflect increased administrative efficiencies and a reduction in highway design and development workload.

As Figure 3 also shows, the budget proposes an increase of $10.7 million for the CHP to fill 130 currently vacant traffic officers positions, and $4 million to pay claims and settlements related to the Interstate 5 dust storm accidents.



CROSSCUTTING ISSUES

TRANSPORTATION PROGRAMMING AND FUNDING

California finances its highway and mass transportation programs with a combination of federal, state, local, and private funds. The multi-year expenditure of state and federal funds for transportation capital projects is contained in the seven-year State Transportation Improvement Program (STIP) and the five-year State Highway Systems, Operations, and Protection Plan (SHOPP), both of which are adopted in even-numbered years by the California Transportation Commission (CTC). Other highway projects are programmed through a variety of capital programs created by the *Transportation Blueprint for the Twenty First Century (Blueprint)*, a package of legislation enacted in 1989-90. The Blueprint legislation was designed to provide $18.5 billion in additional state resources for highways and public mass transit guideways over ten years through increases in fuel taxes and weight fees, and the issuance of bonds for rail projects.

State law requires Caltrans to submit, every two years, a fund estimate to the CTC that projects state and federal revenues and expenditures for highway and rail projects over a seven-year period. The 1994 STIP Fund Estimate was adopted by the CTC in August 1993 and will provide a basis for scheduling projects to be funded over the seven-year period from 1994-95 through 2000-01. Whether the state has funding capacity to program and fund additional projects in 1999-2000 and 2000-01—the last two years of the 1994 STIP period—will depend on (1) the state's ability

to fund all projects that have already been programmed for delivery in the 1992 STIP period (through 1998-99) with revenues anticipated to be available through 1998-99 and (2) the amount of additional revenues the state anticipates to have in 1999-2000 and 2000-01.

This section examines:

- The projected funds available to meet 1992 STIP commitments and the estimated shortfall.
- The implications of the shortfall on the state transportation program.
- The proposal by Caltrans to reduce noncapital expenditures.
- The cash condition of the State Highway Account.

Less Funds Available for 1992 STIP Commitments

Funds projected to be available through the end of 1998-99 will fall short of original projections by about $2.5 billion. This is due to (1) continued reductions in revenues received from transportation taxes and fees, (2) the defeat of Proposition 156, the November 1992 rail bond measure, (3) transfers and redirections of state funds for other nonhighway or nonrail purposes, and (4) a lower-than-anticipated level of federal funds.

Resources Will Be Lower by $2.5 Billion. Our analysis shows that revenues available through 1998-99 will be $2.5 billion less than originally projected for the 1992 STIP period. This reduction is due to:

- $958 million less in revenues from the state's tax on gasoline and diesel fuel, and from truck weight fees—mainly as a result of the recession.
- $1 billion less in bond funds as a result of the defeat of Proposition 156 in November 1992 which would have provided capital for statewide rail improvements.
- About $294 million in transfers from the State Highway Account (SHA) to other uses since 1991-92. As Figure 4 shows, a total of $63.7 million has been transferred in 1992-93 and 1993-94 to the General Fund. These transfers represent rental income and interest accrued to the SHA, and are not subject to restrictions under Article XIX of the State Constitution. The figure also shows that a total of $230 million has been transferred from the SHA to the Motor Vehicle Account (MVA).

- $230 million less in federal funds for 1993 than was expected.

Figure 4

State Highway Account Transfers to Other Funds

(In Millions)

	Amount
1991-92	
To Motor Vehicle Account (MVA)	$38.5
1992-93	
To General Fund	28.7
To MVA	61.5
Subtotal	($90.2)
1993-94 (estimated)	
To General Fund	$35.0
To MVA	130.0
Subtotal	($165.0)
Total	**$293.7**

Projected Expenditures for the 1992 STIP Will Be Higher

Total expenditures through 1998-99 for the 1992 STIP will be higher by at least $303 million. This amount would grow to $953 million, if toll bridges are to be seismically retrofitted with SHA funds instead of toll revenues.

While revenues are projected to be less, expenditures for the 1992 STIP period will be higher than previously expected. These additional expenditures include:

- ***California Highway Patrol (CHP) Support.*** Beginning in 1992-93, SHA funds have been used to support the CHP operation of weigh and inspection stations. We estimate that SHA support for the CHP will total about $128 million through 1998-99. These expenditures, however, were not taken into account in the 1992 STIP.

- ***Transportation Enhancement Program.*** Under the federal Intermodal Surface Transportation Efficiency Act (ISTEA), 10 percent of the state's portion of federal funds is required to be expended on specified transportation enhancement projects. According to the CTC, only $65 million worth of enhancement

projects have been programmed in the 1992 STIP. Consequently, about $175 million more will need to be programmed in order to meet the federal requirement.

- ***Toll Bridge Seismic Retrofit Program.*** Caltrans estimates the costs to retrofit toll bridges to total $650 million. The funding source for these projects has not yet been determined, and the 1992 STIP did not set aside any funds for these projects. To the extent SHA and federal funds (as opposed to toll revenues) are to be used to retrofit toll bridges, total expenditures of these funds would be higher accordingly.

Significant Funding Gap Exists

In summary, the state is at least $3.5 billion short in funds to carry out all the transportation projects programmed in the 1992 STIP period and to retrofit toll bridges to seismic safety standards. This gap would increase further by an unknown amount depending on a number of factors.

The components of the $3.5 billion gap include:

- $2.5 billion in reduced state funds, including $1 billion from the defeat of Proposition 156, $958 million from reduced SHA revenues, $294 million in transfers, and $230 million in reduced federal obligation authority.
- $953 million in additional expenditures including $175 million for Transportation Enhancement projects, $128 million to provide operation support to the CHP, and $650 million to pay for seismic retrofit of the state's toll bridges if these projects are to be funded from highway funds and not toll revenues.

This gap would increase by an unknown amount depending on a number of other factors, as follow:

Seismic Retrofit Program Will Likely Cost More. The 1992 STIP set aside about $700 million to cover the costs of seismic retrofit of all state single-column and multi-column bridges (but not toll bridges). As we discuss in a later section of this analysis, it now appears that more bridges will have to be retrofitted at additional costs. Furthermore, it is not known to what extent, as a result of the Northridge earthquake in January, Caltrans needs to revise the scope and strategy, and therefore the cost, of its seismic retrofit program.

Additional Expenditures for Northridge Earthquake Unknown. The Northridge earthquake caused significant damage to major state routes

and interstate freeways in southern California. The cost to repair the damage, while not determined at this time, will be significant. The state's ability to fund all projects programmed for the 1992 STIP period will depend in part on the availability of federal emergency funds for the repair of damages caused by the earthquake to these highways. For instance, the state received federal emergency funds totaling $1 billion to repair damages caused by the Loma Prieta earthquake. It is unclear at this time how much federal emergency repair funds will be provided for the Northridge earthquake, and whether the state will need to match the available federal funds. Depending on that amount and the total costs of repairs, state expenditures will increase accordingly.

Availability of Future Bond Funds Uncertain. Additionally, the funding shortfall of $3.5 billion assumes that voters will approve a $1 billion bond measure for rail capital improvements in the November 1994 election. Accordingly, if the bond measure fails, the shortfall would be larger by $1 billion.

Implications of Funding Gap on State Transportation Program

The state could use revenues projected to be available in 1999-2000 and 2000-01 to fund the shortfall, but this would leave no additional funds to program projects for those two years. This means that projects in the 1992 STIP will be constructed over a nine-year period, instead of seven. Even using these revenues, the 1992 STIP would not be funded fully without further actions.

Funding Gap Limits Programming in the 1994 STIP. Clearly, the $3.5 billion shortfall will limit the state's ability to program and fund new projects in the last two years of the 1994 STIP period—1999-2000 and 2000-01. This is because unless additional revenues are generated or expenditures are reduced, revenues projected to be available in those two years will have to go toward funding the $3.5 billion shortfall.

Our analysis shows that $8.5 billion in revenues are projected to be available in 1999-2000 and 2000-01. However, only about $1.8 billion will be available to fund the shortfall. This is because about $5 billion of the projected revenues will be used for various noncapital expenditures including highway operations and maintenance, local assistance, and departmental engineering support, leaving only $3.5 billion for all STIP and non-STIP (such as SHOPP and TSM projects) capital outlay purposes. The 1994 Fund Estimate projects total non-STIP capital outlay projects for 1999-2000 and 2000-01 to total $1.7 billion, thus leaving only $1.8 billion to pay for STIP projects.

Capital Outlay Workload Will Decrease With Fewer Projects Under Preparation. As a result of the shortfall, the projects programmed in the 1992 STIP will essentially be stretched out over nine or more years (through 1994 STIP period or beyond), and the department's workload for capital outlay support will be lowered accordingly. This is because the department will not need to devote as many staff resources to work on long-lead time projects. Consequently, for 1994-95, the budget proposes a capital outlay support staffing level that is 499 personnel-year equivalents (PYEs) below the estimated current year level.

Caltrans Proposes Lowering Noncapital Expenditures to Reduce Gap

Caltrans proposes to reduce noncapital expenditures by approximately $1.2 billion below the level initially projected for the 1992 STIP period. These reductions in expenditures would reduce the shortfall accordingly.

In preparing the 1994 Fund Estimate, Caltrans proposed to revise downward projected noncapital expenditures such as highway maintenance and departmental administration, by approximately $1.2 billion in order to free-up funds for capital outlay purposes. For instance, the fund estimate reflects a reduction of departmental administration expenses by about 5 percent over the STIP period of $88 million. Additionally, it projects a lower level of highway maintenance expenditures than previously projected in the 1992 STIP to provide $538 million in savings. The fund estimate also reduced the amount it sets aside for future Caltrans' budget changes and contingencies by about $535 million.

The department proposes to initiate some of these reductions beginning in the budget year. For instance, the budget proposes to reduce 634 personnel-year equivalents of staff support departmentwide, mainly to reflect efficiencies to be achieved in 1994-95. (This is in addition to the 499 PYE reduction as a result of lower workload in projected design.) A large portion of the staff reduction will be in highway maintenance activities.

To the extent future noncapital expenditures are kept at these lower levels, the 1992 STIP funding shortfall will be reduced.

SHA Faces Cash Problem in 1994-95

The cash balance in the SHA has been declining. Currently, the balance in the account is about $130 million. The lower balance is the result of (1) lower revenues into the account, (2) the use of SHA funds for other

purposes, (3) a higher level of project delivery, and (4) the failure of Proposition 156.

Additional funds will be needed in 1994-95 in order to deliver the state transportation program, as scheduled. Approval of a $1 billion bond measure scheduled for November 1994 will provide a source of funds to finance the program.

In addition to a long-term problem of funding the 1992 STIP, the state transportation program also faces a short-term problem of potentially not having sufficient cash to finance the program in 1994-95. This is because the cash balance in the SHA has been declining over the past eighteen months and continues to do so. As of the end of 1993, the account had a balance of about $130 million, a dramatic decline from a balance of about $700 million in mid-1992.

A number of factors contributed to the cash balance decline, including:

- Lower gas tax and weight fee revenues to the SHA as a result of the recession.
- The use of SHA funds for other purposes, including the transfer of SHA into the General Fund, as discussed earlier.
- Caltrans' improved level of project delivery.
- Failure of Proposition 156 which would have authorized $1 billion in rail bond funds. Rail projects have instead had to rely on the SHA for support.

As a result, the outflow of SHA cash has exceeded incoming state revenues and federal reimbursements on average by about $20 million to $25 million per month.

The department indicates that it will be able to maintain the cash balance at about the $100 million level throughout 1994, if:

- Caltrans can fund highway projects by using future federal funds in advance, and
- Funds from other sources, such as Proposition 116 rail bond funds, are available to backfill for the STIP funding shortage on at least an interim basis, or certain projects—rail or highway—are deferred.

Earthquake Repair and Seismic Retrofit Will Further Draw Down Cash in 1994-95. As we discussed earlier, depending on the amount of federal emergency relief funds the state receives, repairs for the Northridge earthquake damage could exert additional demands on funds that otherwise would be available for delivering the 1992 STIP. To the

extent these repairs occur in 1994-95, the draw on SHA cash will also increase. Similarly, to the extent expenditures on the seismic retrofit program are higher than anticipated due to an expansion in the scope and costs of the program, the cash draw in 1994-95 will also be higher.

Additional Funds Will Be Needed in 1994-95 to Deliver Program as Scheduled. Given the cash balance, additional money will be needed in 1994-95 if there is to be (1) no deferral in the delivery of projects programmed in the 1992 STIP, (2) continued funding of the seismic retrofit program, and (3) no further reduction in maintenance and operations of the highway system below the amount proposed in the budget.

Under the *Blueprint* legislation, a $1 billion bond measure is scheduled for the November 1994 election. The approval by voters of the measure will provide funds to finance programmed projects in 1994-95. Failure of the measure would require the Legislature to determine how, in the short term, the state should fund transportation projects in 1994-95, as well as how, in the long term, the 1992 STIP commitment should be funded.

Timing of $1 Billion Bond Measure. The $1 billion bond measure is currently scheduled for the November 1994 ballot. The timing of the bond measure, however, entails some risk in that if the measure fails, the Legislature would have limited time in the middle of the fiscal year to address the transportation funding situation and the cash needs of the SHA without projects being deferred.

Issues for the Legislature to Consider

In view of the discussion above, a portion of the 1992 STIP cannot be constructed on time as scheduled if additional revenues are not available. Rather, it will take at least nine years, instead of seven—through 2000-01—to construct all 1992 STIP projects. In addition, the state's ability to fund projects in 1994-95 depends on the availability of anticipated funds. The following are several key issues for the Legislature to consider with regard to the funding of the state's transportation program.

- ***Funding for Toll Bridge Seismic Retrofit Work.*** Caltrans estimates the cost for seismic retrofit work on California toll bridges to be about $650 million. The Legislature will need to determine how this amount is to be funded. Two options are available: (1) use toll bridge revenues or (2) use gas tax revenues. We estimate that a $1 increase in toll for passenger vehicles would provide about $100 million annually in additional revenues, while a one cent increase in gas taxes would provide about $140 million annually.

- ***Funding for the Seismic Retrofit Program.*** Based on the potential number of bridges that may need seismic retrofitting, and given the recent earthquake, the scope and costs of the program will likely be higher than initially anticipated. The Legislature will need to determine the funding priority of the program and the priority the department should place on accomplishing retrofit projects.
- ***Timing of the 1994 Bond Measure.*** The 1992 STIP assumes that $1 billion in bond funds currently scheduled for the November 1994 ballot will become available in 1994-95. If the measure fails, the state will not have sufficient funds to construct all plan-ready projects in 1994-95. Consequently, projects will have to be delayed. The Legislature may want to consider the timing of the bond measure to ensure that it has adequate time to address the funding situation without projects having to be deferred.

MOTOR VEHICLE ACCOUNT CONDITION

The MVA derives most of its revenues from vehicle registrations and driver license fees. In recent years, the MVA has also received an increasing amount of revenues from the sale of vehicle registration and driver information, mainly to financial institutions. In 1993-94, about 88 percent of MVA revenues are estimated to come from vehicle registration and driver license fee revenues. Another 5.7 percent of revenues will come from the sale of information. The majority of MVA revenues are used to support the activities of the Department of Motor Vehicles (DMV), the California Highway Patrol (CHP), and the Air Resources Board.

MVA Revenues Projected to Remain Flat

Our analysis of the MVA revenues shows that the budget's projections of revenues from vehicle registration are more realistic than in prior years. Projections for driver license fees and revenue from the sale of documents, however, remain optimistic. As a result, total revenues may still be somewhat overstated.

The budget projects that in 1994-95, MVA revenues will total about $1.1 billion, an increase of $8.4 million (0.7 percent) over estimated current-year revenues. This low growth is attributable to projected increases in revenues from driver license fees and from the sale of

documents, offset by a drop in vehicle registration revenues due to the expiration of a $1 vehicle registration surcharge for CHP traffic support on January 1, 1995.

Our review of the MVA revenue projections shows that recent projections of vehicle registration fee revenues have been more realistic. However, based on past trends, projections of certain revenues to the MVA remain optimistic. Figure 5 compares the projected and actual revenues from the main sources of MVA revenues.

Projections of Vehicle Registration Revenues More Realistic. As Figure 5 shows, actual vehicle registration revenues in 1992-93 were $1.7 million (0.2 percent) higher than projected. Additionally, the budget now estimates revenues to be $6.4 million higher in the current year compared to its original projection. This is a reversal of an earlier trend from 1989-90 to 1991-92 in which revenues were consistently overestimated and then revised downward in the subsequent year.

Based on Historical Trends Projections of Revenues From Driver License Fees and the Sale of Documents Seem Optimistic. Figure 5 also shows that projected revenues from driver license fees and from the sale of documents have been higher than actual revenues. For instance, in 1992-93, these revenues were overestimated by a total of $35.3 million.

Figure 5

Motor Vehicle Account
Projected Versus Actual Revenues
1990-91 Through 1993-94

(Dollars in Millions)

	1990-91	1991-92	1992-93	1993-94
Total Revenues				
Projected	$921.5	$1,035.9	$1,089.3	$1,100.8
Actual	884.0	988.0	1,051.7	—
Estimated				1,090.7
Overestimation	37.5	47.9	36.6	10.1
Percent	4.1%	4.9%	3.6%	1.0%
Vehicle Registration				
Projected	737.8	782.4	833.0	860.0
Actual	675.0	768.8	834.7	—
Estimated				866.4
Overestimation (underestimation)	62.8	13.6	(1.7)	(6.4)
Percent	9.3%	1.8%	(0.2%)	(.7%)
Driver License				
Projected	84.6	127.7	112.0	109.0
Actual	85.3	94.1	95.4	—
Estimated				96.4
Overestimation (underestimation)	(0.7)	33.6	16.6	12.6
Percent	(1%)	35.7%	17.3%	13.1%
Sales of Documents				
Projected	68.0	61.0	78.0	70.0
Actual	69.7	63.7	59.3	—
Estimated				62.3
Overestimation (underestimation)	(1.7)	(2.7)	18.7	7.7
Percent	(2.4%)	(4.2%)	31.5%	12.4%

Budget Year Account Balance Will Be Smaller

While the budget projects a balance in the MVA of $37.6 million at the end of 1994-95, the amount will be smaller because expenditures from this account are understated.

MVA Projected to Have a Reserve. For 1994-95, the budget projects a balance of $37.6 million in the account at the end of 1994-95. Our review, however, shows that this reserve is primarily due to the availability of a carryover balance from 1993-94. In fact, the budget proposes expenditures

in 1994-95 from the MVA that are about equal to projected revenues. As discussed below, however, the budget's estimate is optimistic.

Projected Balance Will Be Lower. Our review shows that the account balance for 1994-95 will be lower than projected in the budget. This is because, beginning January 1, 1995, CHP staff will receive an increase in employee compensation. The cost of that increase for 1994-95 is estimated to be about $5.6 million. This amount, however, was not included in total MVA expenditures when the budget was prepared. Consequently, the projected MVA balance will be less by that amount.

Additionally, to the extent MVA revenues prove to be overestimated, the account balance at the end of 1994-95 will be smaller.

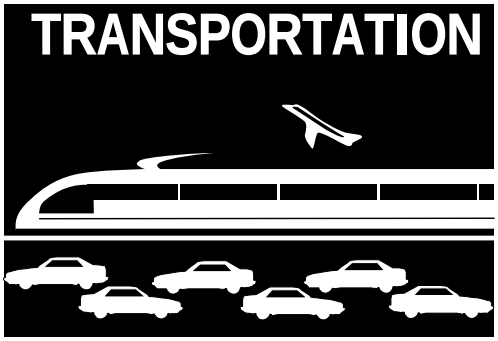
Vehicle Registration Surcharge Should Be Extended Permanently

We recommend the enactment of legislation to extend permanently a $1 surcharge on vehicle registration in order to fund additional CHP traffic officers.

Based on past MVA expenditure trends, we expect that MVA expenditures will continue to grow beyond 1994-95. If projected revenues continue on a low-growth trend, future fee increases or other program reductions will likely be necessary to keep the account in balance.

Our analysis indicates that MVA revenues are not projected to grow in 1994-95 mainly due to the expiration of the $1 vehicle registration surcharge. However, expenditures are proposed to increase. For instance, the budget proposes to increase expenditures for the CHP by about 12 percent in 1994-95. This increase includes additional funding of $10.7 million to fill 130 vacant traffic officer positions.

The $1 vehicle registration surcharge was first imposed in 1981 in order to support 670 additional CHP officers. Subsequently, the surcharge has been extended every two years or so in order to provide continued funding for these traffic officers. The fee currently generates about $27 million per year. Expiration of the surcharge in 1995 would limit the state's ability to sustain a CHP traffic officer force at the level proposed for 1994-95. In order to ensure sufficient MVA revenues for continued support of the CHP in 1995-96, we recommend that the fee be extended. Because revenues from the surcharge have provided ongoing funding for the CHP for the past 14 years, we further recommend the surcharge be made a permanent part of MVA funding.



DEPARTMENTAL ISSUES

DEPARTMENT OF TRANSPORTATION (2660)

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

The budget proposes expenditures of $5.9 billion by Caltrans in 1994-95. This is about $21.8 million, or 0.4 percent, less than estimated current-year expenditures.

TEN-YEAR PLAN

Implementation of Ten-Year Plan Is Uneven

Planned expenditures through 1994-95 for various transportation elements continues to lag behind the ten-year plan. Furthermore, implementation of the plan is uneven among various program elements.

As part of the *Transportation Blueprint* legislation of 1990, the Legislature provided a projected $18.5 billion in additional funds over ten years for transportation improvements. These additional funds resulted from increases in the gas tax and truck weight fees, as well as increases in bond financing for rail improvements. The Legislature also established a plan specifying how the additional resources are to be used. Additionally, the Legislative Analyst is required to provide an annual summary of the expenditures proposed for each element of the plan.

Figure 6 compares the ten-year plan to projected cumulative expenditures from 1990-91 through 1994-95—the fifth year of the plan. The figure also shows the percentage of expenditures to be carried out by the end of 1994-95 for each expenditure element, using the new revenues generated by the *Blueprint* legislation. In total, Caltrans anticipates that, through the budget year, the state would achieve about 34 percent of total expenditures called for in the plan.

Figure 6

Department of Transportation
Ten-Year Plan
Expenditures by Element
1990-91 Through 1994-95

(Dollars in Millions)

	Ten-Year Plan	Proposed Expenditure 1994-95	Planned Accomplishment 1990-91 through 1994-95	Total as Percent of Ten-Year Plan
1988 STIP	$3,500	$233	$2,020	57.7%
Intercity, commuter, and urban rail	3,000	—	1,000	33.3
Flexible congestion relief	3,000	166	260	8.7
City/county subventions—streets, roads, and guideways	3,000	297	1,163	38.8
State/local partnership	2,000	215	761	38.1
Interregional road system	1,250	3	6	.5
Traffic system management	1,000	91	262	26.2
Highway maintenance and rehabilitation	1,000	240	670	67.0
Transit operations and capital outlay	500	40	168	33.6
Soundwalls	150	16	17	11.3
Environmental enhancement and mitigation	100	10	40	40.0
Totals	**$18,500**	**$1,311**	**$6,367**	**34.4%**

The 1994-95 budget year represents the half-way mark in the Ten-Year Plan; if expenditures were spread evenly over the ten years, one would expect that about 50 percent of planned expenditures would be achieved by the end of 1994-95. Caltrans plans significant increases in 1994-95 in the delivery of projects programmed for the 1988 STIP and highway maintenance and rehabilitation, raising expenditures on these elements beyond 50 percent of the planned level.

In other elements of the plan, expenditures lag substantially behind planned levels. Spending on flexible congestion relief—highway or transit projects that reduce congestion—is projected to reach $260 million, only 8.7 percent of the planned level. Even this modest level may be optimistic—in the four years 1990-91 through 1993-94, Caltrans has expended only $94 million on these projects (or 3.1 percent of the ten-year total). The department now proposes expenditures of $166 million in the budget year to reach the 8.7 percent mark.

Caltrans proposes no budget-year expenditures on intercity, commuter and urban rail to be funded from the resources provided under the *Blueprint* legislation. The cumulative expenditure of $1 billion, or 33 percent of the target level, reflects the full amount of bond funds (Proposition 108) authorized thus far by voters.

HIGHWAY TRANSPORTATION

Of the total 1994-95 expenditures in the department's budget, $5.4 billion (92%) is for the Highway Transportation program. This is an increase of $118 million, or 2.2 percent, from estimated current-year expenditures.

As shown in Figure 7, state funds will finance $2.4 billion (45 percent) of total proposed expenditures, the federal government will fund an additional $2.2 billion (40 percent), and the remaining $822 million (15 percent) will be reimbursed primarily from local (sales tax measures) and private (developer) funds.

Local Highway Assistance to Increase. Caltrans operates two highway programs—local assistance and state-local transportation partnership—that help local governments construct roads and highways. Most of the design engineering for these projects is done by the local government. In 1994-95, spending in these programs constitutes the only significant increases in the highway program. Together, funding for these two programs will rise by $197 million (27 percent).

Figure 7

Department of Transportation
Highway Transportation
Budget Summary
1992-93 Through 1994-95

(Dollars in Millions)

	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Percent Change From 1993-94
Expenditures				
Capital outlay support	$860	$801	$832	3.9%
Capital outlay projects	1,733	2,823	2,720	-3.6
State-local transportation partnership	126	153	215	40.5
Local assistance	510	581	716	23.2
Program development	40	74	74	—
Operations	139	147	140	-4.8
Maintenance	735	733	733	—
Totals	**$4,143**	**$5,312**	**$5,430**	**2.2%**
State funds	*$1,938*	*$2,091*	*$2,420*	*15.7%*
Federal funds	*1,875*	*2,464*	*2,188*	*-11.2*
Reimbursements	*330*	*757*	*822*	*8.6*

Decrease in Highway Capital Outlay

Total expenditures on highway capital improvements will decline in 1994-95, mainly due to a drop in federal funds. However, more work will be done in seismic retrofit of highway structures.

About 50 percent of the proposed expenditures for the highway transportation program—$2.7 billion—will be for capital outlay projects. This is approximately 3.6 percent less than estimated current-year expenditures. This reduction in funding is due to a 21 percent drop in federal funds, which account for over half of all construction funds. Figure 8 summarizes the highway capital outlay expenditures proposed by Caltrans for 1994-95.

Increased Seismic Retrofit Offsets Larger Reduction. As Figure 8 shows, capital expenditures on rehabilitation and safety projects will decline by $526 million (44 percent) and traffic systems management projects will decline by $64 million (68 percent) from current-year estimated expenditures. Capital expenditures on seismic retrofit projects, however, will increase by $518 million (471 percent), thus offsetting much

of the capital reduction in other highway programs. (This proposal was made prior to the Northridge earthquake in January.) Our review shows that a significant portion (25 percent) of the increase in seismic retrofit work will be related to work on the San Francisco-Oakland Bay Bridge, projected at about $136 million. Excluding seismic retrofit, highway construction will decline by $621 million (23 percent) from current-year levels.

Figure 8

Department of Transportation
Highway Capital Outlay Expenditures
1992-93 Through 1994-95

(Dollars in Millions)

	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Percent Change From 1993-94
Expenditures				
Flexible congestion relief	$1,022	$1,116	$1,054	-5.6%
Interregional road system	75	183	206	12.6
Soundwalls	28	50	56	12.0
Other highway construction	21	75	77	2.7
Rehabilitation and safety	509	1,195	669	-44.0
Traffic systems management	44	94	30	-68.1
Seismic retrofit	34	110	628	470.9
Totals	**$1,733**	**$2,823**	**$2,720**	**-3.6%**
State Funds	*$262*	*$359*	*$360*	*0.3%*
Federal Funds	*1,168*	*1,796*	*1,418*	*-21.0*
Toll Bridge Funds	*39*	*28*	*243*	*767.9*
Reimbursements	*264*	*640*	*699*	*9.2*

Existing Seismic Retrofit Program Progressing Slowly

The existing seismic retrofit program, as defined prior to the recent Northridge earthquake, has suffered delays and is likely to cost more than currently estimated by Caltrans. We recommend that Caltrans report to the Legislature, prior to budget hearings, on its estimate of the number of multi-column bridges to be retrofitted and the cost to retrofit these bridges.

Following the 1989 Loma Prieta earthquake, the Legislature directed Caltrans to set as its highest priority the seismic retrofit of bridges. Under this program, the department is to retrofit or replace every undamaged

publicly owned bridge, including highway overpasses and other elevated structures, to meet higher seismic safety standards.

Although the seismic retrofit may be expanded following the Northridge earthquake, our review of the status of the current program shows that Caltrans' progress, particularly in terms of retrofitting multi-column structures, has been very slow.

Single Column Retrofit Complete. Caltrans identified 259 single-column bridges that were in critical need of seismic upgrading. As Figure 9 indicates, work on 225 of these bridges was completed by December 31, 1993, and the remaining 34 structures were under contract at that time. The total construction cost for single column bridges is $116 million.

Figure 9

Department of Transportation
Seismic Retrofit Program
Scope and Progress
As of December 1993

(Dollars in Millions)

Bridge Type	Number of Bridges	Estimated Construction Cost	Retrofit Completed	Under Contract as of December 1993
Single-column	259	$116	225	34
Multi-column	486	634	26	70
Toll	7	650	—	1
Totals	**752**	**$1,400**	**251**	**105**
Additional multi-column (under review)	570[a]	$329[a]	—	—

[a] Initial estimate subject to revision.

Scope and Cost of Multi-Column Retrofit Will Be Larger than Currently Estimated. Caltrans has identified 486 multi-column bridges that will be retrofitted, at a total construction cost of $634 million. As of December 1993, only 26 of these bridges had been completed and another 70 were under contract.

In addition to those structures that will definitely be retrofitted, Caltrans has identified a potential 570 additional multi-column bridges for retrofitting. These structures are at various stages in the review process. Based on a Caltrans progress report, 288 of the 570 structures have been determined to require some retrofitting, while the remaining

structures are still being analyzed. As Caltrans further analyzes the retrofit needs for these bridges, some will be found to need no strengthening. Consequently, the *total* number of multi-column bridges that will ultimately be retrofitted under the current program will range between 774 and 1,056 bridges (rather than 486).

Caltrans' progress report shows that the total multi-column retrofit program could cost up to $963 million. However, the department also indicates that it will complete all necessary multi-column retrofit work within the currently estimated amount of $634 million—including all 486 identified bridges and whatever portion of the 570 additional bridges require retrofit. The department has not explained how it will keep the total cost to $634 million, given that the total number of bridges to be retrofitted is unknown, and the strategy to retrofit many of the structures is yet to be determined.

Retrofit Could Take Several More Years to Complete. Current law requires all multi-column bridges to be under contract by December 31, 1993. Clearly, the department has not been able to meet this deadline. The department attributes the delay to the need to research, engineer and test retrofit techniques for multi-column bridges. The department reports that this process is now complete, that there are no further obstacles to the program, and that all multi-column bridges will be under contract by December, 1994.

Based on the department's progress to date, we believe that the department's plan is very optimistic even relative to the remaining 390 structures (of the 486 initially identified for retrofitting and for which design has been essentially complete). For those projects that are still under review, it will likely take Caltrans several more years before retrofitting will be complete given past experience.

Toll Bridges. Of the state's nine toll bridges, seven require seismic upgrading at an estimated construction cost of $650 million. Caltrans has determined that the Dumbarton and Antioch Bridges do not require upgrading.

In the current year, the Legislature appropriated $40 million for seismic retrofit on toll bridges—$8 million in toll bridge funds and $32 million from the State Highway Account. Caltrans, however, indicated that it will expend only 55 percent of the total amount in the current year.

In the budget year, Caltrans is requesting $136 million in toll bridge funds for the first phase of retrofit on the San Francisco-Oakland Bay Bridge. The department's schedule indicates that several additional contracts will be issued for retrofit work on the San Francisco-Oakland

Bay Bridge, with the final contract scheduled for 1995-96. Final contracts to retrofit the other six toll bridges are scheduled from 1995-96 through 1997-98.

Recommendation. The department is behind schedule for retrofitting multi-column bridges, and has presented an unrealistic completion schedule and cost estimate. We recommend that the department report, prior to budget hearings, on (1) its estimate of the total number of multi-column bridges to be retrofitted, (2) the total cost to retrofit these bridges, and (3) its proposal, if any, for completing multi-column retrofit for no more than $634 million.

Northridge Earthquake May Expand Seismic Retrofit Program

We recommend the adoption of supplemental report language directing the department to report on the extent to which the seismic retrofit program needs to be expanded as a result of the Northridge earthquake.

The earthquake that hit Northridge on January 17, 1994 did considerable damage to bridges and highways throughout the Los Angeles area. Some of the damaged structures (for instance those on Interstate 10, the Santa Monica freeway) were scheduled to be retrofitted under the existing retrofit program for multi-column structures, but had not yet been done. Other structures, notably the Highway 14 (Antelope Valley freeway) connector to Interstate 5 (Golden State freeway), had not been included in the first round of the single-column retrofit program because Caltrans determined that they did not pose a significant risk.

These damaged structures will not become part of the seismic retrofit program—retrofit encompasses only upgrading undamaged structures to meet higher standards—but will be classified as earthquake repair, eligible for federal emergency repair funds. However, because the earthquake damaged some structures that Caltrans previously considered to be safe, the department will need to revisit the assumptions and strategy of its seismic retrofit program. This will likely result in the expansion of both the scope and cost of the program.

Recommendation. In order that the Legislature is informed of any need for the department to expand the seismic retrofit program as a result of the Northridge earthquake, we recommend that the Legislature adopt the following supplemental report language:

> The Department of Transportation shall report to the Legislature by December 1, 1994 on the necessary expansion or revision of the seismic retrofit program as a result of the Northridge earthquake. The report shall

include (1) the estimated number of additional bridges that will require retrofit work and (2) the estimated cost of retrofitting these additional bridges.

Continuing Reductions in Capital Outlay Support

We recommend that the department report to the Legislature, prior to budget hearings, on (1) the appropriate level of seismic retrofit support staff, given the slow progress to date and the potential for an expansion of the seismic retrofit program, and (2) the amount of staff resources needed in the current and budget years to accommodate earthquake repair workload caused by the Northridge earthquake, and how the department plans to accommodate that workload.

The budget proposes expenditures of $832 million for capital outlay support in 1994-95. This is an increase of $31 million (3.9 percent) above estimated current-year expenditures. This expenditure level will support a total of 9,808 personnel-year equivalents (PYEs) of work—a decrease of 499 PYEs (4.8 percent) from the amount estimated in the current year. Capital outlay support staff provide the preliminary engineering, right-of-way acquisition, environmental clearance and technical support services, and construction oversight on capital improvements.

Fewer Staff Resources Requested for Budget Year. Figure 10 summarizes the overall staff resources for project development proposed in 1994-95 as compared with 1993-94. It also summarizes Caltrans' planned allocation of staff resources by type of work.

As Figure 10 shows, the reduction in staff resources will be concentrated in three areas—work related to project design, engineering, and construction of the basic STIP program; work related to projects funded by local sales tax measures; and seismic retrofit.

Decrease in Staff Due to Lower STIP Workload. The department uses a statistical model to compute its staff requirement for capital outlay support, based upon the number, size, and complexity of scheduled projects. As we discussed in the Transportation Funding and Programming section of this analysis, as a result of a funding gap for the 1992 STIP, it appears that no additional projects will be programmed in the seven-year period (1994-95 through 2000-01) beyond those already programmed in the 1992 STIP. As a result, Caltrans will not need to devote staff in the budget year to work on projects that otherwise would have been programmed for 1999-2000 and 2000-01.

Figure 10

Department of Transportation Capital Outlay Support Staffing 1992-93 Through 1994-95

(Personnel-Year Equivalents)

	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Proposed Change From 1993-94
Sources				
State staff	8,647	8,696	8,555	-141
Cash overtime	412	305	299	-6
Student assistants	177	153	153	—
Engineering consultant contracts	1,268	952	801	-151
Carry-over of prior year contract authority	—	201	—	-201
Totals	**10,504**	**10,307**	**9,808**	**-499**
Uses				
Basic STIP program	7,791[a]	7,421	7,196	-225
Pre-STIP state projects	627	296	419	123
Seismic retrofit	—	790	552	-238
Locally funded projects	466	347	411	64
Local tax measure projects	1,341	1,096	875	-221
Administrative pro rata	279	357	355	-2
Totals	**10,504**	**10,307**	**9,808**	**-499**

[a] Includes 1992-93 seismic retrofit PYEs.

In addition, for 1994-95, the department proposes to further reduce its staffing request by 356 PYEs from the statistically derived estimate as a result of deferring work on two main categories of projects. First, the department reports that in the budget year it will not work on projects with "long lead time," and has accordingly reduced total staffing by 91 PYEs. ("Long lead time" projects are typically complex projects that require planning studies to be done several years in advance of project design.) Second, the department will defer design work on a number of projects for which right-of-way acquisition is scheduled in the 1992 STIP, but for which no funds have been programmed for construction, for a reduction of 265 PYEs. Three right-of-way only projects in the Los Angeles area—two on Interstate 210 and one on Highway 91—account for the majority of these reductions.

The department's decision to defer work on "long lead" and "right-of-way only" projects means that should additional highway funds become

available in the future—through legislative action or increased federal funding—the department may be unable to deliver additional highway projects in a timely manner. While we believe the department's deferral strategy is reasonable, we have no analytical basis to judge if 356 PYEs is the correct reduction.

Adequacy of Staff for Seismic Retrofit in Question. For 1994-95, the department requests 552 PYEs for seismic retrofit work, a reduction of 238 from the estimated current-year level. At the same time, Caltrans anticipates to have under contract all multi-column bridge seismic retrofit projects by the end of 1994. Given the delays in completing multi-column and toll bridge seismic retrofit, and the sizeable number of structures still to be retrofitted under the current program, it is questionable whether the department will be able to accommodate the workload with less staff. Furthermore, the freeway damage resulting from the Northridge earthquake will likely require the department to retrofit additional structures. Consequently, we believe that the department may require additional staff resources to complete the seismic retrofit program. If seismic workload exceeds the 552 PYEs requested, Caltrans would have to redirect staff from other efforts thereby delaying the delivery of other highway projects.

Recommendation. Given the delays in completing the seismic retrofit work and the potential for the program to expand, we believe that the department should reevaluate and justify its request for capital outlay support staff in the seismic retrofit program. Accordingly, we recommend that the department report, prior to budget hearings, on the appropriate level of staff for design and construction oversight in the seismic retrofit program, including (1) the existing seismic retrofit program, including all 1,056 multi-column bridges, and (2) any expansion of the seismic retrofit program necessitated by the Northridge earthquake.

Earthquake Repair Workload Unanticipated but Potentially Significant. The department's budget request was prepared prior to the Northridge earthquake. However, with the extensive damage as a result of the earthquake, the department will have to devote a potentially significant amount of staff resources to work on earthquake repair projects in the current year, 1994-95 and beyond. When Caltrans redirects existing staff to that work, then other work would be delayed.

Recommendation. Therefore, we recommend that the department report prior to budget hearings, on the level of staff it estimates to be needed in the current and budget years to accommodate the earthquake repair workload and how it intends to do that workload.

Assessment of Project Delivery in 1992-93

Overall project delivery in 1992-93 showed improvement over previous years. In total, the department delivered $2.2 billion worth of highway projects.

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

Figure 11 compares project delivery in 1992-93 to previous years. The figure shows Caltrans' delivery of projects scheduled to be delivered in 1992-93 as well as projects scheduled for delivery in other—earlier and later—years.

Figure 11

Department of Transportation
Project Delivery
1990-91 Through 1992-93

(Dollars in Millions)

Projects Delivered	1990-91	1991-92	1992-93	Percent Change From 1991-92
Number of projects				
STIP-year projects	296	260	247	-5.0%
Projects from other years	114	139	195	40.3
Totals	**410**	**399**	**442**	**10.8%**
Value of projects				
STIP-year projects	$885	$970	$1,029	6.1%
Projects from other years	397	576	1,145	98.8
Totals	**$1,282**	**$1,546**	**$2,174**	**40.6%**

Caltrans Delivered 70 Percent of Scheduled Projects. In 1992-93, Caltrans delivered 247 scheduled projects valued at $1.0 billion. This

delivery represents 70 percent of the number, and 68 percent of the value, of projects scheduled for delivery in 1992-93. This is a slight improvement over 1991-92, when the department delivered 260 (65 percent) projects scheduled for that year.

While the department delivered on time only 70 percent of scheduled projects for 1992-93, 81 projects (23 percent) worth $378 million that were scheduled for 1992-93 were actually delivered early, before 1992-93. The remaining 24 projects worth $100 million scheduled for 1992-93 will be delivered late.

Total Project Delivery Worth $2.2 Billion. In addition to scheduled projects, Caltrans also delivered 195 projects, not originally scheduled for 1992-93, worth $1.1 billion. This group includes projects delayed from years prior to 1992-93 as well as projects advanced from future years. Thus, in total, Caltrans delivered 442 projects worth $2.2 billion in 1992-93. This is an increase over 1991-92 of 11 percent in the number of projects delivered and 41 percent in their value.

Delivery of unscheduled projects represented over half of the value of projects delivered in 1992-93. A portion of these projects—92 projects worth $262 million—were scheduled for delivery after 1992-93 but were delivered early. In addition, the department delivered 26 delayed projects, worth $76 million, that were initially scheduled for delivery in an earlier year but that were not delivered on time. The most significant component of unscheduled delivery, however, was 77 "added" projects, worth $807 million. These projects were originally not programmed in any year, and were amended into the STIP and SHOPP for 1992-93 delivery.

Project Development Costs Vary Depending on Methodology Used

Caltrans' project development costs were 22 percent of total project value in 1991-92, thereby exceeding the 20 percent statutory limit. However, the department proposes an adjustment that reduces these costs to 19 percent. Using an alternate methodology, our analysis shows project development costs were about 25 percent of project costs.

We recommend adoption of supplemental report language directing the department to continue reporting on the cost of project development.

Current law requires Caltrans to keep its project development cost (the cost of designing and engineering highway projects) from exceeding 20 percent of the value of projects awarded in a single year. Additionally, the Legislative Analyst is required to annually report its assessment of Caltrans' project development costs.

Using the same methodology as in prior years, the department indicates that its project development costs were 22 percent of the value of projects awarded in 1991-92, thus exceeding the statutory requirement. However, Caltrans proposes an adjustment to its calculation that reduces the ratio to 19 percent.

Caltrans Adjustment Lowers Cost Ratio. The department reports that, due to the recession, the cost of highway construction contracts awarded in competitive bidding was significantly lower than predicted, and that these bids underestimated the true construction value of projects delivered in 1991-92. In order to account for "underbidding," the department inflated project contract costs by 20 percent. Using this adjusted project value, the department calculates that its project development costs were about 19 percent of project value, thus below the statutory cap.

While construction bids did fall relative to initial estimates, we believe that the department's adjustment is unwarranted. The 20 percent adjustment is much greater than the actual decline in construction bids, and appears to be based upon inconsistent data and a flawed methodology.

Alternate Calculation Shows 25 Percent Cost Ratio. Because we have several concerns with the validity of Caltrans' methodology for calculating the cost of project development, we developed an alternate approach based upon average capital outlay support and delivery over several years to assess the department's project development costs.

For fiscal years 1988-89 through 1991-92, Caltrans' capital outlay support costs, excluding administrative overhead, totaled $2.7 billion. Excluding staff for performing project study reports and for construction oversight, we estimate that the department expended $1.6 billion for project development. Over the same period, capital outlay expenditures totaled $6.5 billion, indicating a project development ratio of about 25 percent. The 25 percent ratio may underestimate the true ratio because it gives Caltrans full credit for delivering projects worth $6.5 billion. However, this level of capital outlay includes $1.3 billion in reimbursements for local projects for which Caltrans does only a portion of the actual project development.

Reporting Requirement Suspended. Chapter 710, Statutes of 1992 (AB 2824, Speier) suspended, until January 1, 1995, most departmental reporting requirements including Caltrans' cost of project delivery report. Because we question the department's success in achieving the 20 percent statutory target, we believe that the department should continue

reporting its project development cost to the Legislature. Accordingly, we recommend adoption of the following supplemental report language:

> Notwithstanding any other provision of law, Caltrans shall report to the Legislature, as required by Government Code Section 14524.16, on its cost of project development. The department shall report by August 1, 1994 on 1992-93 projects, and by December 1, 1994 on 1993-94 projects.

New Technology Program Needs Legislative Oversight

We recommend that the department report, prior to budget hearings, on the funding and activities of its New Technology program and justify continued and growing use of state funds for technology research and development.

Caltrans' New Technology program funds research and development of advanced transportation technologies (such as automated vehicle control and navigation). The program primarily provides grants to fund research, in cooperation with the federal government, other governmental organizations, and the private sector. For 1994-95, the department proposes expenditures of $35 million in state funds for this program; additional funds will be provided by other public and private partners.

In the *Supplemental Report of the 1991 Budget Act*, the Legislature expressed its intent that New Technology research should be funded one-third by state funds and two-thirds by federal and other governmental organizations and the private sector. This requirement reflects the Legislature's belief that Caltrans' technology research and development provides substantial benefits to other governmental organizations and to the private sector, and that financial contributions by these non-state organizations provide validation that Caltrans' research effort is in the direction that has support from the private sector.

Activity Report Not Submitted. The Legislature also directed the department to submit annually an activity schedule for the program for the subsequent year, detailing the projects and funding of the program from state funds and other sources. Because Caltrans has not submitted a report for 1994-95, we are unable to determine whether the New Technology program is meeting the goal of two-thirds non-state participation. The department has reported the amount of state, federal, and local government financial participation, but was unable to identify the level of private sector participation. According to the department, private sector participation is often in-kind—contributions of employee time, materials, equipment, etc.—rather than cash contributions. As shown in Figure 12, the department projects 1994-95 state expenditures of $35 million and federal participation of $39 million.

Figure 12

New Technology Program Expenditures by Source 1992-93 Through 1994-95

(In Millions)

	Actual 1992-93	Estimated 1993-94	Projected 1994-95	Total 1992-93 to 1994-95
State	$27	$30	$35	$92
Federal	13	43	39	95
Local	—[a]	—[a]	—[a]	1
Private and in-kind	—[b]	—[b]	—[b]	—[b]
Totals	**$40**	**$73**	**$74**	**$188**

[a] Less than $0.5 million.

[b] Not reported.

State Share May Exceed Target. While we are unable to assess the department's success in meeting the goals set by the Legislature, our review indicates that the department has failed to meet its own funding targets.

In its activity report for 1993-94, the department projected that the overall program would be funded 26 percent by the state, 51 percent by the federal government and 23 percent by the private sector and local government. If the department had met this target, federal funds should be approximately twice as great as state funds. However, our analysis indicates that expenditures of state funds have been at a much higher level than projected in the department's activity report. Consequently, as Figure 12 shows, total federal contributions from 1992-93 through 1994-95 are essentially equal to state funding.

Recommendation. The department appears to be significantly below the Legislature's target for non-state participation in the New Technology program and has not provided a report of activities planned for the budget year. We therefore recommend that the department provide to the Legislature, prior to budget hearings, an activity report for 1994-95 including (1) a list of research projects planned for 1994-95 with confirmed funding sources, research partners, completion dates and research products; (2) a list of all completed projects in 1993-94, their funding sources and their products; (3) total state and federal expenditures by source and any restrictions on other uses of these funds;

and (4) justification, in terms of state benefits, of continued state expenditures on the program.

Job Opportunities Program Lacks Definition

We recommend a reduction of $5 million requested to fund job creation and transportation research and development projects because the objectives and strategy for the program are poorly defined and duplicate existing efforts. (Reduce Item 2660-001-042 by $4,800,000 and reduce Item 2660-001-041 by $200,000.)

The budget requests $5 million annually to fund a Job Opportunities program in 1994-95 and 1995-96. Under the new program, the department will provide grants to encourage research and development of new transportation-related technologies and to create jobs, particularly in industries impacted by federal defense cutbacks. We find that this proposal is poorly defined, duplicates an existing program, and provides few assurances that it will achieve its goals.

Expenditure Plans Lack Definition. Caltrans has not prepared a detailed proposal for expending these funds, but it indicates that funds would generally be granted in two different ways. First, the department would award funds to organizations that are applying for additional federal defense-conversion matching funds. Second, Caltrans would also provide funds, at the department's discretion, directly to private sector or other organizations for job creation and technology development. The department has not indicated how much will be allocated for matching grants versus direct grants. Additionally, it has not developed the criteria and review process that it will use to ensure that grants yield benefits in transportation technology and job creation.

Proposal Duplicates Existing Program. Caltrans' existing New Technology program (discussed above) provides grants for research and development of advanced transportation technologies, in partnership with the federal government, other governmental organizations, and the private sector. Projects are selected for this program based on their potential to provide benefits to the state's transportation system and to attract participation by outside partners.

The proposed Job Opportunities program has the same technology-development goals as does the existing New Technology program. The department has indicated that the Job Opportunities program would target federal matching funds for intelligent vehicle highway systems, high-speed rail development, automated highway systems, and Technology Reinvestment Program funds. Each of these funding sources are currently targeted by, or are available to, Caltrans' existing New

Technology program, and the creation of another similar program would result in a duplication of effort.

Caltrans' Basic Function Creates Many Jobs. Caltrans' main responsibility and mission is to provide an efficient and cost-effective transportation infrastructure that benefits the state's economy through enhanced mobility. As such, the department's ongoing expenditures currently create many jobs in California—both through improvements to the transportation system and through direct employment and expenditures on construction. Therefore, by focusing on its mission to improve transportation, the department ultimately benefits the economy.

Any transportation funds allocated to the proposed program would reduce funds available for existing programs of transportation improvements. The department has not demonstrated that more jobs or greater economic benefits would flow from spending under the Job Opportunities program than from equivalent spending in the department's existing programs to further its mission.

Recommendation. While we recognize that very real employment problems exist within California, particularly within industries impacted by defense cutbacks, we question whether the department's undefined and duplicative proposal is an effective way to address the problem. Accordingly, we recommend that the proposed funds be deleted.

In our review of the Trade and Commerce Agency proposed budget, we recommend greater legislative oversight of the existing statewide Defense Conversion Matching Grant program. We recommend that evaluation and improvement of this coordinated statewide effort be undertaken rather than providing additional funding for a new less-defined program. (Please see the Business and Labor chapter of this analysis.)

Maintenance Inventory Request Overbudgeted

We recommend a reduction of $1,341,000 due to overbudgeting for increased highway maintenance workload. (Reduce Item 2660-001-042 by $1,341,000.)

With the addition of new highway infrastructure, the department's maintenance workload increases each year, requiring a budget adjustment. For 1994-95 the department requests 87 personnel-years and $7.4 million for additional maintenance efforts.

Personnel Needs Overstated. Of the 87 personnel-years (PYs) requested, 47 are for landscaping and litter clean-up. Our review shows that this request is overbudgeted by 24.4 PYs.

The maintenance division estimates its need for additional support by measuring new highway inventory—miles of roadway, acres of landscaping, etc.—and multiplying the increase by an average workload factor. This calculation assumes that state employees will provide all of the labor; however, in recent years state employees have provided only about half the labor for litter and landscaping. The remainder of the labor is provided by special program people—unpaid workers from prison work camps, probationers, and so on. Based on our review, we conclude that the department did not adjust its request to reflect this labor. We therefore recommend a reduction of 24.4 PYs and $911,000 to account for work performed by non-state employees.

Facilities Expenses Unjustified. The department's request represents a 1.4 percent increase in personnel and operating expenses for maintenance; however, the department requests $430,000 for facilities operations, an increase of 5.4 percent. Because the new maintenance workload represents a very small percentage increase, we believe that the department should be able to accommodate the additional staff throughout the state without any significant increase in facilities needs, and we therefore recommend deletion of these funds.

Accordingly, we recommend a total reduction of $1,341,000 (24.4 PYs).

Management Efficiency Proposal Lacks Specifics

We recommend that the department report to the Legislature, prior to budget hearings, on its plan to achieve management efficiencies totalling $56 million without impairing the department's output or deferring work to later years.

For 1994-95, Caltrans proposes to reduce resources in most programs by implementing unspecified management efficiencies which the department believes will reduce operating costs without negatively affecting its productivity. The department proposes to reduce staff by 634 PYs ($34 million) and reduce operating expenses by $22 million. The budget also proposes to redirect $12 million of the total efficiency savings for merit salary adjustments, for a net savings of $44 million.

Figure 13 shows the department's proposed reductions by program. The highway transportation program will sustain the largest cut, 450 PYs and $27 million, most of which will be from highway maintenance. Highway operations—programs that promote the efficient use of existing highways—will be cut by 75 PYs and $3 million. No reductions are proposed for highway capital outlay support or the aeronautics program, and minimal reductions will be made in the mass transportation and transportation planning programs.

Figure 13

Department of Transportation
Proposed Management Efficiency Reductions

(Dollars in Millions)

Program	PYs	Dollars
Highway transportation	450	$27
Capital outlay support	(—)	(—)
Local assistance	(11)	(—[a])
Program development	(33)	(2)
Highway operations	(75)	(3)
Highway maintenance	(331)	(21)
Mass transportation	9	—[a]
Transportation planning	10	—
Aeronautics	—	—
Distributed services—administration, equipment, technical	165	17
Totals	**634**	**$44**

[a] Less than $1 million.

Proposal Provides Little Detail. While the department has targeted cuts for each program, it has not yet developed a detailed plan for achieving these reductions without impairing its output. The department suggests that it can realize the efficiencies by reducing interdepartmental redundancies, streamlining procedures, regionalizing and consolidating functions, and improving its use of automation, teleconferencing and other technologies. The department's goal to provide the same output at a lower cost is laudable; however, if it is unable to achieve the full savings through efficiencies, it would have to cut back its output to make up the difference.

Largest Reductions in Highway Maintenance. Of the total reduction, the largest single cut—$21 million and 331 PYs—will be taken from the highway maintenance program. If the program is unable to achieve this reduction strictly through improved efficiency, maintenance efforts will suffer. This could lead to a deterioration in the quality and safety of the highway system and increased costs in the future to repair damage.

Most of the remaining savings (165 PYs, $17 million) are proposed for three "distributed" programs—administration, equipment services, and technical services—that provide services to program divisions. Highway maintenance is the largest user of these distributed services, so that any reduction in the level of service provided would have a further negative impact on highway maintenance. When reductions in these distributed

services are taken into account, the highway maintenance program will absorb approximately 70 percent of the total departmental cutbacks.

Proposed Reduction Is About the Same Amount as Legislative Directive for 1993-94. In enacting the 1993 Budget, the Legislature reduced Caltrans' administrative support program by $54.7 million. However, instead of implementing the full reduction, Caltrans continued to spend at a higher level that would result in a deficiency (of about $48 million) by the end of the current year, and notified the Legislature accordingly in December 1993. The Legislature was concerned with Caltrans' apparent lack of efforts in reducing its administrative costs as directed—identifying savings of only $7 million. However, to avoid major disruption in the department's operations for the balance of the current year, the Legislature approved the deficiency rate of expenditures for the current year, but indicated that it will review the department's 1994-95 budget proposal for additional savings in administrative expenses.

For 1994-95, Caltrans now proposes to reduce departmental expenditures by 5 percent in order to achieve net savings of about $44 million. This reduction is about the same amount that was required by the Legislature last year, but not achieved by the department. However, the proposed reduction is distributed among all programs and not targeted to just the administrative program.

Recommendation. While we support the department's efforts to eliminate redundant and inefficient practices, we believe that the department should explain in detail how it will achieve the proposed reductions without impairing its output, particularly in highway maintenance. Accordingly, we recommend that the department report to the Legislature, prior to budget hearings, on (1) a detailed plan for achieving its proposed budget savings and (2) how it will ensure that budget cuts do not impair the department's productivity or result in deferral of work or, alternatively, result in a subsequent deficiency request.

MASS TRANSPORTATION

For 1994-95, the Mass Transportation program will account for approximately 7.3 percent of the department's total expenditures. The budget proposes $431.6 million in program expenditures, which is $137.6 million (24 percent) less than estimated current-year expenditures.

Figure 14 summarizes the Mass Transportation expenditures by program elements. The largest elements of the program are the rail transit capital and the interregional public transportation elements. In 1994-95,

the budget proposes a 39 percent reduction in rail transit capital expenditures and a 6.9 percent reduction in interregional public transportation expenditures. This is mainly because the amount of bond funds available under Proposition 108 are expected to be fully expended by the end of 1993-94 with no bond funds from this source remaining for 1994-95. As a result, expenditures for activities in these two elements are projected to decrease by about $143.2 million.

Figure 14

Department of Transportation
Mass Transportation Expenditures
1992-93 Through 1994-95

(Dollars in Millions)

	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Change from 1993-94
State and federal mass transit	$11.6	$18.8	$26.2	39.4%
Rail transit capital	474.9	334.5	202.6	-39.4
Interregional public transportation	152.3	164.3	153.0	-6.9
Transfer facilities and services	2.7	3.9	3.9	—
Research	0.1	—[a]	—[a]	—
Work for others	0.1	1.5	1.5	—
Rideshare	36.9	46.2	44.4	-3.9
Totals	**$678.6**	**$569.2**	**$431.6**	**-24.2%**

[a] Amounts are included in the state and federal mass transit element.

Proposition 108 Bond Funds Depleted

Proposition 108 bond funds will be depleted by the end of 1993-94. Depending on the outcome of the $1 billion rail bond measure currently scheduled for the November 1994 ballot, Proposition 116 funds may be the only bond funds available for rail capital improvement in 1994-95 besides funds provided under the Transit Capital Improvement program.

The *Transportation Blueprint* legislation provided $3 billion in bond funds for rail capital improvements, upon approval of the voters. Voters approved a $1 billion measure (Proposition 108) in 1990, but did not approve the second measure (Proposition 156) in 1992. The third $1 billion measure is scheduled for November 1994.

The 1992 STIP programmed the full $3 billion in bonds for rail projects to be delivered through 1998-99, with projects scheduled through 1993-94

to be paid for from Proposition 108 funds. Projects scheduled for later years would be funded from subsequent bond measures. Some of these projects are now ready for funding. However, because of the failure of Proposition 156, they will be competing for any Proposition 108 bond funds that remain unexpended, if any.

Figure 15 shows the amount of Proposition 108 and 116 funds expended from 1991-92 through 1994-95. Similar to Proposition 108, Proposition 116 authorized approximately $2 billion in bond funds specifically for rail and transit capital improvement. The two measures differed, however, in that Proposition 116 funds were targeted for specific projects and purposes and thus not available for programming in the STIP process. As the figure shows, by the end of 1993-94, an estimated $1.8 billion will have been expended on rail improvements, including all of the Proposition 108 funds. If the November 1994 bond measure fails to be approved by voters, then only Proposition 116 funds will continue to be available for rail projects in 1994-95 in addition to funds available under the Transit Capital Improvement program.

Figure 15

Propositions 108 and 116 Programs
Expenditures of Bond Funds
1990-91 Through 1994-95

(In Millions)

	1991-92 and Prior	Actual 1992-93	Estimated 1993-94	Proposed 1994-95	Total
Proposition 108	$485.7	$299.9	$214.4	—	$1,000.0
Proposition 116	209.3	252.4	366.9	$366.9	1,195.5
Totals	**$695.0**	**$552.3**	**$581.3**	**$366.9**	**$2,195.5**

Intercity Rail Program

Caltrans is responsible for implementing the Intercity Rail program which was established by the *Blueprint* legislation. The objective of the program is to improve passenger service by (1) increasing service frequency, (2) extending existing routes, and (3) decreasing the average trip time by increasing train speeds.

Currently, intercity rail passenger services are provided on three main corridor routes in the state on a contract basis with Amtrak. (These are referred to as state-supported services and are provided pursuant to

section 403(b) of the federal Rail Passenger Service Act.) These routes are the San Diegan, the San Joaquin, and the Capitol.

In addition to providing for the operation of the service, Caltrans also plans for the capital improvements needed to upgrade the corridor routes to provide for service expansion. Capital improvement projects include acquisition of rolling stock (cars and locomotives), maintenance facility and station improvements, and track and signal improvements.

Funding for Intercity Rail

The state funds the intercity rail program primarily with rail bond funds and funds from the TP & D Account.

Funding for Capital Improvements. State funds for capital improvement of intercity rail service come from three main sources. First, the *Blueprint* provides, upon voter's approval, a total of $3 billion in bond funds for rail improvement. The *Blueprint* specifies that at least 15 percent of these bond funds are to be used for intercity rail projects.

Second, Proposition 116 authorized about $2 billion in bond funds for rail and transit projects and provided $382 million specifically for intercity rail projects. Proposition 116 also provided another $100 million for the development and acquisition of the California Car, a state-of-the-art rail car for California intercity and commuter passenger rail service. Third, funds are also available on a discretionary grant basis under the Transit Capital Improvement (TCI) Program, funded from the TP & D Account.

Funding for Operations. The state pays for a portion of the operating costs of state-supported intercity passenger rail service based on a formula which takes into account the amount of fare revenues generated and the cost of service. The state's costs are paid from the TP & D Account.

More Service Planned and Performance Improved

The number of daily round trips provided by intercity rail service has remained relatively stable since 1992-93. For 1994-95, the budget proposes to increase round trip service and extend certain service lines.

Service performance, as measured in terms of "fare revenue returned" has improved. The San Joaquin and the San Diegan have exceeded the statutory farebox return requirement for the past two years. The Capitol service, which began in 1991-92, must show a 55 percent farebox return by the end of December 1994 to continue to be funded.

Service Expansion for 1994-95. Figure 16 shows the number of daily round trips for the intercity rail service since 1991-92. Intercity rail experienced most of its service level growth to date in the 1980s. The figure shows that subsequently the number of daily round trips has not changed. For 1994-95, Caltrans proposes significant expansion of the service level as follows:

- ***The San Diegan.*** Currently, nine daily round trips serve Los Angeles and San Diego with two of the trains proceeding on to Santa Barbara. Caltrans expects to add a tenth round trip between Los Angeles and San Diego in October 1994.
- ***The San Joaquin.*** Currently, four daily round trips serve Oakland and Bakersfield daily. Caltrans proposes to (1) add one shuttle run between Stockton and Sacramento, (2) extend the route to include San Jose in January 1995, and (3) add two more daily round trips beginning in April 1995 for a total of six round trips daily.
- ***The Capitol.*** Currently, three daily round trips serve Sacramento and San Jose with one trip extended to Roseville. Caltrans proposes to double the number of round trips starting in April 1995.

Figure 16

Intercity Rail Service
1991-92 Through 1994-95

Number of Daily Round Trips

	1991-92	1992-93	1993-94	Proposed 1994-95
San Diegan	8	9	9	10
San Joaquin	3	4	4	6
Capitol	3	3	3	6

Farebox Returns. Figure 17 shows the actual and projected ridership and farebox ratio for the three routes for 1991-92 through 1994-95. Ridership on all three intercity routes increased from 1991-92 to 1992-93. That trend is expected to continue in the current and budget years with the Capitol route experiencing the largest ridership increases. In terms of farebox returns, current law requires new services to meet at least 55 percent of the service's operating costs through fare revenues by the third year of operation in order to continue to be funded with state monies. Existing services must also meet the 55 percent farebox ratio on an ongoing basis to receive state funds. As Figure 17 shows, the Capitol

service did not meet the required farebox ratio (fare revenues to operating costs) in 1991-92 and 1992-93, the first two years of service, and is not projected to meet the requirement by December 1994. Under the law, it must meet the 55 percent ratio by December 1994, the end of the third year of service, or Caltrans can request an extension from California Transportation Commission in order to continue to be funded.

The department indicates that one reason for the low farebox ratio on the Capitol service is the low level of service provided. In order for the public to choose intercity rail service, the number of round trips service must be sufficient to provide potential riders some level of flexibility. Caltrans believes that six round trips will provide that flexibility and is proposing to expand the Capitol service to that level for 1994-95.

Figure 17

Intercity Rail Service
Ridership and Farebox Return

(In Thousands)

Ridership	San Diegan	San Joaquin	Capitol
1991-92	884	484	174
1992-93	954	516	239
1993-94[a]	1,029	551	328
1994-95[a]	1,110	854	509
Farebox Ratio (%)			
1991-92	99.3%	66.4%	40.7%
1992-93	102.9	55.8	35.3
1993-94[a]	101.0	46.9	47.1
1994-95[a]	96.2	53.8	47.3

[a] Projections based on year-to-date actuals, past-year trends, and proposed service increases.

Intercity Rail Expansion Delayed in Current Year

We recommend that $9.5 million appropriated for the current year expansion of intercity rail service be reverted to the TP & D Account because the expansion has been deferred due to a shortage of equipment; consequently, the funds are not needed in the current year.

In order to expand intercity rail service, Caltrans has to ensure the availability of equipment for the service. Equipment may be leased from Amtrak when available; alternatively, Caltrans can provide equipment for the service directly.

Acquisition of the California Car. Proposition 116 provides $100 million for the development and acquisition of the California Car for intercity rail and commuter rail service. In 1992, Caltrans entered into a contract with a vendor to purchase a total of 88 cars, including 41 cars for intercity rail service in order to augment the existing rollingstock and to allow for the service expansion planned for 1993-94.

The Delivery of California Car Delayed by One Year. The original contract called for the cars to be delivered for service in California in August 1993 for a total cost of $153.6 million. However, the delivery of these cars has now been delayed. According to Caltrans, the delay is in part due to the department amending the contract in 1993 to order an additional 25 intercity rail cars with various car enhancements. Caltrans now anticipates that the first California car will be delivered in August 1994 and the total cost of the California Cars will be about $269 million.

Anticipated 1993-94 Service Expansion Did Not Materialize. In anticipation of the original 1993-94 delivery date of the California Cars, the current-year budget provides $9.5 million from the TP & D Account to support an expansion of the intercity rail service. Because the equipment was not delivered, the service expansion did not materialize. Consequently, the funds will not be expended in 1993-94.

Accordingly, we recommend that the $9.5 million appropriated in the current year for expanded service operating expenses be reverted back to the TP & D account.

Expansion to Be Achieved by May 1995. The budget requests $27.9 million in 1994-95 for operating expenditures for intercity rail service. Of this amount, $15.8 million will be for operating costs of the proposed new services. Caltrans plans to expand all new proposed services by the end of April 1995.

Based on the delivery schedule of the California Cars, our analysis shows that only 28 intercity cars will be delivered and ready for service by the end of April 1995. Caltrans advises that this number of cars will be sufficient to meet the expanded service requirements. Thus, the department's request is warranted.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL (2720)

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

The budget requests a total of $733.7 million for support of the CHP in 1994-95. This is $77.2 million, or about 12 percent above estimated expenditures in the current year. The increase is the result of (1) adjustments totaling $50.2 million for various cost increases and (2) workload and program changes totaling $27 million. Key program changes include $10.7 million for filling 130 vacant traffic officer positions, $4 million for automation and telecommunication improvements, and $4.1 million to cover CHP's share of the Interstate 5 dust storm judgments and settlements.

Additional Funding to Fill Traffic Officer Vacancies

The budget request for $10.7 million to fill 130 vacant traffic officer positions is reasonable. These traffic officers will be deployed in accordance with standard CHP policies to increase traffic enforcement capabilities.

Currently, the CHP has funding for about 5,140 traffic officers. Within the last couple of years however, vacancies have accumulated and the CHP anticipates that there will be approximately 430 unfilled traffic officer positions by the end of 1993-94. Vacancies have occurred mainly as a result of a $33 million unallocated reduction in CHP funding in 1992-93 coupled with unbudgeted cost increases. While a portion of the reduction was restored in the current year, it was insufficient to cover increases in benefits and insurance costs, worker's compensation costs, and other inflation adjusted cost increases. To meet these higher costs, the CHP suspended academy training and held vacated positions open.

For 1994-95, the CHP requests an increase of $10.7 million to fill 130 of the vacant positions in order to restore its traffic patrol staffing as the CHP resumes academy training in February 1994.

Analyst Recommendation. Our review shows that cost containment measures and attrition in the past two years have created over 430 vacancies. We believe that the requested budget augmentation is reasonable in order to provide sufficient funds to restore traffic enforcement services.

No Change in Deployment Procedures. The CHP plans to assign the new traffic officers in accordance with the department's primary mission of traffic enforcement on the state's highways and roads. Based on past experience, most new CHP officers are typically assigned to southern California. The CHP does not intend to modify its deployment procedures and staff assignments are not expected to change in terms of percentages of officers assigned to each division.

DEPARTMENT OF MOTOR VEHICLES (2740)

The Department of Motor Vehicles (DMV) is responsible for protecting the public interest in vehicle ownership by vehicle registration and promoting public safety on California's roads and highways by regulating the issuance of driver licenses. Additionally, the department provides revenue collection services for state and local agencies.

The budget proposes total expenditures of $522 million for support of the DMV in 1994-95. This is an increase of $4.8 million, or 0.9 percent, above estimated current-year expenditures.

Botched Database Redevelopment Project Being Reevaluated

We withhold recommendation on $7.5 million for continuation of the department's database redevelopment project, pending receipt of a detailed revised plan for the project. We further recommend that, prior to budget hearings, the department provide a full report to the Legislature on its initial database redevelopment project.

The DMV's driver license and vehicle registration database is essential to the day-to-day operation of the department and is a valuable information resource to law enforcement and state and local revenue collection activities. The database is one of the primary tools used by the department to carry out its mission including issuing licenses, registering vehicles, and collecting fees.

In the early 1980s the department determined that the database was technologically obsolete and in need of a complete overhaul. The department found that the database was unable to meet its current and future business needs, citing many problems, including:

- Specialized and obsolete programming practices that limit the department's ability to assimilate new programmer staff and to contract for temporary or emergency staff.

- The extreme difficulty of making necessary system modifications, which raises the cost and slows the implementation of legislative mandates and management initiatives.
- Inadequate ability to back-up and recover database contents.
- Inability to thoroughly test software modifications prior to implementation.

Given these problems, the department set out to redevelop its database and its project began in earnest in 1988-89. Expenditures through 1992-93 total $33 million and include:

- $14.6 million for new computer hardware, selected on the basis of a comprehensive head-to-head evaluation. The department now indicates that it may not use this computer system and that it has little resale value.
- $6.3 million for consultant contracts. This includes an expenditure of $1.5 million for a contract, subsequently cancelled by the department, to rewrite the application programs that the department uses to access the database.
- $9.5 million in DMV personnel costs, including resources devoted to an unsuccessful attempt to rewrite the application programs using departmental staff.

Despite Major Investment, Initial Project May Be Abandoned. In addition to $33 million spent through 1992-93, the department still owes $6.1 million on the computer purchase contract and also is incurring unknown costs in the current year, pushing the total cost of this project in excess of $40 million. No major components of the project are in place, and the department has determined that its initial approach is unworkable and may be abandoned.

The department is preparing a Special Project Report (SPR) to revise the project. The department reports that the SPR will reevaluate the scope and strategy of the project. We understand that the revised plan may involve abandoning the recently purchased computer equipment, implementing a less ambitious redesign of the database, and rewriting only those application programs that demand frequent attention by staff.

We believe that the changes being contemplated by the department are so radical that the revised plan must be considered a new project, requiring that the department submit a new Feasibility Study Report. This report would provide some evidence that, in developing its revised plan, the department has determined the project objectives and benefits,

considered the costs, benefits, and risks of all available options, and justified its chosen approach.

Causes of Failure Go Unexamined by DMV. The department has not provided a substantive explanation for the failure of its database redesign project and has, therefore, not demonstrated that it will be able to avoid such failures in the future. We believe that factors that contributed to project failure include:

- The department's limited experience with modern database technology did not provide the necessary knowledge to plan and implement a project of this magnitude.
- The project, which has evolved under two directors, has neither received consistent and sustained departmental management and oversight nor oversight from the Office of Information Technology (OIT).
- The department and OIT grossly underestimated the size and scope of the project, including the amount of computer equipment required, the difficulty of rewriting the application programs, and the need for skills not available in the department.

Withhold Recommendation Pending Full Report by DMV. We withhold recommendation on $7.5 million requested for continuation of database redevelopment, pending receipt of the department's revised plan. Furthermore, we recommend that, prior to budget hearings, the department, and OIT where appropriate, provide a report to the Legislature accounting for project failure and detailing revised plans, including:

- Total expenditures to date on the database redevelopment project.
- Why the initial project scope and strategy was selected, why the project cannot be successfully executed.
- Why OIT approved the project, given that the approach is now deemed unworkable.
- The disposition of the computer purchased for database redevelopment, its resale value, and the total cost of maintaining this computer at the Teale Data Center.
- Total costs and annual expenditures needed and the timeline to implement the revised project.
- The extent to which the goals of the original project remain valid and will be addressed by a new solution and how the department and OIT will avoid similar pitfalls in the future.

Social Security Number Collection Slowed by Deferral of Work

We recommend that the Legislature adopt supplemental report language requiring the department to report by December 15, 1994 on the estimated costs and revenues of using Social Security numbers to collect outstanding fines and penalties in order that the Legislature can determine whether this revenue collection approach is cost-effective.

Legislation enacted in 1991 required the DMV to collect Social Security numbers on its driver license and vehicle registration databases, primarily to facilitate the collection of unpaid parking fines, failure-to-appear penalties, child support, and other fines and penalties.

To date, the Legislature has appropriated $22.9 million for this project; however, substantial portions of the project were deferred in 1992-93 and 1993-94 in order to meet spending reduction targets. As a result, the DMV reports that it will have spent only $9.6 million by the end of 1993-94 and will have collected approximately one quarter of the total Social Security numbers.

For 1994-95, the department is requesting an augmentation of $3.5 million—for a total funding in the budget year of $8.4 million—for this effort. The department expects that this higher funding level (for 1994-95 *and* 1995-96) will allow it to collect approximately 90 percent of Social Security numbers by the end of 1995-96. Total expenditures to complete the collection of Social Security numbers will exceed $25 million; however, costs are likely to be below the DMV's initial (1991) estimate of $44 million.

Revenue Collection Not Cost-Effective. Beginning in 1995-96 (one year behind original schedule), the DMV reports that it will begin collection of fines and penalties using the Social Security numbers. At that time, the department estimates that it will require additional funding of approximately $8 million per year to cross-check driver license and vehicle registration records for delinquent fines and penalties. The department indicates that it has not developed a detailed estimate of the revenue that would result from this effort, but it believes that the amount could be less than $1 million per year. Based on these preliminary estimates, this revenue collection effort appears unwarranted because collection costs will greatly exceed revenues.

Recommendation. Because the DMV has not developed firm revenue estimates and because its initial estimates suggest that revenues may be significantly less than the associated collection costs, the Legislature should be provided with better estimates of costs and revenues prior to

the department undertaking the collection efforts in 1995-96. Accordingly, we recommend that the Legislature adopt the following supplemental report language:

> By December 15, 1994, the DMV shall report to the Legislature on (1) the cost of collecting fines and penalties using the cross-matched databases provided under Ch 90/91 and (2) the revenue, to state and other entities, that will result from this effort.

Cost-Effectiveness of Credit Card Payment Program Still Not Demonstrated

We recommend that the Legislature adopt Budget Bill language directing the department not to expand the credit card payment program beyond 11 centers until the department can demonstrate the cost-effectiveness of the program.

The DMV has redirected funds so that nine of its telephone service centers can accept credit cards for payment of driver license and vehicle registration fees and plans to add two more centers in the current year. Accepting fee payments by credit card results in costs to the department because credit card companies deduct a "discount fee" of 1.8 percent of all credit charges. The department's cost for credit card fees has risen from $127,000 in 1991-92 to an estimated $266,000 in 1993-94 and $318,000 in 1994-95.

For the current year, the Legislature rejected the department's request for $534,000 to fund the credit card payment program, but allowed the department to redirect funds for the program pending further review. This decision was made because the DMV's estimated benefits of the credit card payment program—increased interest earnings due to earlier deposit of revenues, fewer dishonored checks, and reduced bank fees—were less than 25 percent of the cost of the program. While the DMV believes that other savings are possible from fewer visits to field offices and increased vehicle registration levels, it has not provided details on the additional savings.

In order to evaluate the total costs and benefits of the credit card program, a credit card company has prepared a report for the DMV. The department has informed us that this report, initially expected in August 1993, is now in draft stage and has not been approved for release.

Recommendation. Because the only data available so far indicate that the credit card program is not cost-effective, we recommend that the Legislature adopt Budget Bill language to prohibit the department from

further expanding the program beyond the current-year number of centers until the program is demonstrated to be cost-effective:

> Of the amounts appropriated to the DMV, no funds shall be used to expand the credit card payment program beyond 11 centers, until the department submits a report to the Legislature that demonstrates that the program is cost-effective.

Zero-Tolerance Drunk Driver Costs Overestimated

We recommend a reduction of $1,050,000 and 5.4 PYs because the amount requested to implement new drunk driver legislation is overbudgeted. (Reduce Item 2740-001-044 by $1,050,000.)

Chapter 899, Statutes of 1993 (SB 689, Kopp), closed a loophole in drunk driving enforcement that had permitted drivers under 21, not of legal drinking age, to legally drive with measurable blood alcohol levels. This new "zero tolerance" law prohibits anyone under 21 years of age from operating a motor vehicle with a blood alcohol content in excess of 0.01 percent (the limit for drivers of legal drinking age is 0.08 percent). The new law also requires the DMV to suspend the driver license of any driver under 21 who is arrested for drunk driving. The department requests a budget augmentation of $3.2 million and 49 PYs for its new responsibilities in 1994-95. Our review shows that the request is overbudgeted by $1,050,000 (5.4 PYs) for the following reasons.

Legal Costs Overbudgeted. When the DMV suspends or revokes a license, the affected driver occasionally sues the department. The Attorney General represents the department when it is sued and bills for hourly charges. Because this law will result in more drunk driver arrests and suspended licenses, the budget requests $1,157,400 to pay legal fees to the Attorney General for the expected increase in lawsuits.

The new "zero tolerance" law will result in an estimated 13 percent increase in total drunk driving arrests; however, the department is requesting a 45 percent increase in funds budgeted to pay Attorney General charges. We see no analytical reason for the department's total Attorney General charges to rise by significantly more than 13 percent. Accordingly, we recommend a reduction of $820,000.

Number of Restricted Licenses Also Overstated. The new law permits persons under 21 who have their license suspended for drunk driving to request that the department issue a restricted license, permitting driving only to work or school. The budget requests 17.9 PYs and $764,000 to process these requests, based upon projected volume. In a policy memo, the department estimated that 66 percent of drivers affected by this law would apply for a restricted license. The budget request, however, is based upon a 95 percent application rate. The department has not

provided a justification for the higher rate; we therefore recommend a reduction of 5.4 PYs and $230,000.

LIST OF FINDINGS AND RECOMMENDATIONS

Analysis Page

Crosscutting Issues

Transportation Programming and Funding

1. **Less Funds for 1992 STIP Commitments.** Funds projected to be available through the end of 1998-99 will fall short of original projections by about $2.5 billion. This is due to (a) continued reductions in revenues received from transportation taxes and fees, (b) the defeat of Proposition 156, (c) transfers of transportation funds for nonhighway or rail purposes, and (d) a lower-than anticipated amount of federal expenditure authority. A-12

2. **Projected Expenditures Will Be Higher.** Total expenditures through 1998-99 will be higher by at least $303 million. If toll bridges are to be retrofitted with State Highway Account money, total expenditures will be higher by about $953 million. A-13

3. **Significant Funding Gap Exists.** The state is at least $3.5 billion short in funds to carry out all the transportation projects programmed in the 1992 STIP period and to retrofit toll bridges to seismic safety standards. The gap would increase further by an unknown amount depending on a number of factors. A-14

4. **Implications of Gap on State Transportation Program.** Using revenues available in 1999-2000 and 2000-01 to fund the $3.5 billion shortfall will leave no room to program new projects for those two years. Even if the available revenues are used, the 1992 STIP will not be funded fully without further actions. A-15

Analysis Page

on seismic retrofit will constitute the only significant increase over the current-year.

12. **Existing Seismic Retrofit Program Progressing Slowly.** Retrofit of multi-column bridges is behind schedule and costs will likely exceed Caltrans' estimate. Recommend Caltrans report on total number of bridges requiring retrofit and the cost to retrofit these bridges. A-29

13. **Northridge Earthquake May Expand Seismic Retrofit Program.** Freeway damage in the Northridge earthquake may necessitate revisions in the seismic retrofit program. Recommend supplemental report language for the department to report on the extent to which the retrofit program may be expanded as a result. A-32

14. **Continuing Reductions in Capital Outlay Support.** Caltrans proposes 499 fewer PYEs for capital outlay support because projected workloads are declining and because some highway work will be deferred. Recommend department report on adequacy of staff for existing and new seismic retrofit and earthquake repair workload. A-33

15. **Assessment of Project Delivery in 1992-93.** Overall project delivery in 1992-93 showed improvement over previous years. In total, department delivered $2.2 billion worth of highway projects. A-36

16. **Project Development Costs Vary Depending on Methodology.** Caltrans' cost of project development in 1991-92 ranged from 19 percent to 25 percent of the total value of delivered projects, depending on methodology. Recommend supplemental report language to ensure continued reporting by the department. A-37

17. **New Technology Program Needs Legislative Oversight.** The department has not demonstrated two-thirds non-state funding for New Technology research according to legislative intent. Recommend that the department report on its activities, funding and justification for expenditure of state funds. A-39

Department of the California Highway Patrol

Analysis Page

officer positions is reasonable. These traffic officers will be deployed in accordance with standard CHP policies to increase traffic enforcement capabilities.

Department of Motor Vehicles

25. **Botched Database Redevelopment Project Being Reevaluated.** The department's database redevelopment project will cost over $40 million and will not meet its goals. Withhold recommendation on $7.5 million for a revised plan. Recommend that the department provide a full report to the Legislature prior to budget hearings. A-54

26. **Social Security Number Collection Slowed by Deferral of Work.** Recommend that the Legislature adopt supplemental report language requiring the department to report on the costs and revenues from using Social Security number data to collect outstanding fines and penalties. A-56

27. **Cost-Effectiveness of Credit Card Payment Program Still Not Demonstrated.** Recommend that the Legislature adopt Budget Bill language to prohibit expansion of the program beyond 11 centers because its cost-effectiveness is questionable. A-58

28. **Zero-Tolerance Drunk Driver Costs Overestimated. Reduce Item 2740-001-044 by $1,050,000.** Recommend reduction of $1,050,000 and 5.4 PYs because the amount requested in order to implement new drunk driver legislation is overbudgeted. A-59