

Business, Transportation, and Housing

The Business, Transportation, and Housing Agency includes programs that: plan, build, and maintain California's state transportation systems; ensure efficient and fair markets for the real estate industry, health care plans, and certain financial businesses; and assist community efforts to expand the availability of affordable housing. The Agency also contains programs that assist financing the state's infrastructure, small business expansion, and economic development by encouraging and promoting economic activity and investment within the state. In addition, the Agency contributes to public safety through the law enforcement activities of the California Highway Patrol and the Department of Alcoholic Beverage Control.

Transportation Debt Restructuring

The Governor's Budget proposed \$920 million to partially repay the loan that was made when Proposition 42 was suspended in 2004-05. This loan is due to be paid in 2007-08 under current law. SCA 7, which will be submitted to the voters in November, requires that Proposition 42 loans outstanding on June 30, 2006 be repaid over no more than 10 years, superseding the current statutory repayment dates. This could provide substantial budgetary relief in 2007-08 and 2008-09 by spreading out payments on the remaining principal amount of approximately \$1.2 billion.

As part of the Administration's overall strategy of paying down debts, the May Revision continues to propose repaying \$920 million in 2006-07, which includes \$254 million for local streets and roads repairs. This is even more critical now due to the damage suffered

in the winter of 2005-06 and the fact that the regular Proposition 42 allocation for 2006-07 contains no funds for local streets and roads. While the proposed bonds will provide substantial funding for transit, highways, local roads and other transportation capital needs beginning in 2007-08, Proposition 42 funds are needed in 2006-07 to keep previously planned transportation capacity projects moving.

The May Revision revenue forecast indicates substantial sales tax will be derived from the increase in gasoline prices. Under the so-called "spillover" formula in existing law, this money does not go into Proposition 42, rather it has been directed by statute into a variety of other funds, including the Public Transportation Account. As a major part of the Administration's strategy to make the proposed transportation infrastructure bonds more affordable, the Administration proposes to shift these special revenues to a new fund that will be dedicated to paying a portion of the debt service on existing and new transportation bonds. The General Fund will pay the remaining debt service. Based on current forecasts, this could provide nearly \$4 billion through 2015-16 toward transportation debt service costs. The Revenue and Strategic Growth Plan sections provide more information on this proposal.

Transit Funding

Revenues to the Public Transportation Account, including the sales tax on diesel fuel (up almost \$70 million in the May Revision), Tribal Gaming Bond proceeds, and Proposition 42 have resulted in a projected balance exceeding \$500 million at the end of 2006-07 that is available for capital projects. The May Revision reflects an increase of \$35 million in grants for local transit operations to a level of \$270 million. The level of state support for transit operations has increased by \$153 million over the level in 2004-05.

Department of Transportation

- 2005-06 \$4.8 million
- 2006-07 -\$15 million

Capital Outlay Support Staffing

Caltrans traditionally submits a zero-based Capital Outlay Support request as part of the May Revision. Capital outlay workload needs are estimated in the spring because the department has a better idea of which projects will be allocated by the California Transportation Commission in the upcoming year and what will be needed to deliver

those projects. The May Revision proposes a reduction of \$39.3 million and 411 state and contract positions. This resource level will result in 88.9 percent state staff and 11.1 percent contract staff.

Of these savings, \$12.2 million is proposed to be redirected to increase the tort claims budget to the average amount spent in recent years, which has been approximately \$54 million.

Capital Project Spending

Project capital outlay support for Proposition 42 projects was funded out of the State Highway Account in the current year. For 2006-07, the May Revision proposes to shift these costs to the Transportation Investment Fund (Proposition 42), consistent with the way other capital outlay support is funded. This shift frees up \$185 million in the State Highway Account that can be used to increase the State Highway Operations and Protection Program, which has been significantly under funded due to lack of funds in the State Highway Account.

Tribal Gaming Funds

Due to litigation that has been filed against the state, the Administration proposed to shift \$849.0 million of the \$1.0 billion in tribal gaming expenditure authority from 2005-06 to 2006-07 in an April Finance Letter.

To date, the state has received approximately \$151.0 million in revenues from tribal gaming compacts. These funds will be used in 2005-06 pursuant to current law to repay the State Highway Account for previous loans made to the General Fund. It is our understanding that the California Transportation Commission plans to allocate these funds to State Transportation Improvement Program projects.

Department of Motor Vehicles

- 2005-06 No Change
- 2006-07 \$20.1 million

Implementation of Real ID Act

The May Revision proposes \$18.8 million (Motor Vehicle Account) and 36.4 positions to begin the planning, programming, and infrastructure development necessary to implement the federal Real ID Act. The Act sets minimum standards for the creation and issuance of driver license and identification cards that will be acceptable for official federal purposes, such as air travel and entering federal buildings. The Act has significant workload and cost implications

for the Department of Motor Vehicles (DMV) because it requires 24 million licensed drivers and identification card holders in California to return to DMV offices to establish identity and obtain compliant cards when many of these individuals otherwise would have been able to conduct these transactions through the mail or internet. Provisions of the Act must be implemented by May 11, 2008; however, federal regulations concerning implementation of the Act are still pending.

This request would establish an organizational unit dedicated to Real ID, comprised of 21 positions that would be responsible for overall project and policy development. The request would also allow the DMV to implement a web-based infrastructure that would enable it to move over 2.2 million transactions annually out of the field offices when fully implemented to help make room for the additional field office visits from persons applying for Real IDs. The DMV's information technology systems also will need to be expanded to conform to Real ID requirements.

Department of Alcoholic Beverage Control

- 2005-06 -\$1.3 million
- 2006-07 No Change

Licensing and Compliance System

The May Revision proposes to reduce current-year expenditures for the Licensing and Compliance System (LCS) information technology project by \$1.3 million special fund, due to implementation delays stemming from a lawsuit filed by an unsuccessful project bidder. When the LCS is implemented, it will streamline the ABC's ability to process license applications, and will enable the Department to more easily access stored information.

Office of the Secretary of Business, Transportation, and Housing

- 2005-06 No Change
- 2006-07 \$5 million

San Joaquin Valley Strategic Action Proposal

The May Revision proposes \$5 million General Fund on a one-time basis to support implementation of the San Joaquin Valley Strategic Action Proposal. Established by Executive Order on June 24, 2005, the California Partnership for the San Joaquin Valley is to address the economic challenges in the eight counties that comprise the San Joaquin Valley region (Kern, Tulare, Kings, Fresno, Madera, Merced, Stanislaus and San Joaquin Counties). The Executive Order requires preparation of a Strategic Action Proposal to improve the economic well-being and quality of life in the San Joaquin Valley.

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