

- 5. Capital Outlay Support (COS) (May Finance Letter).** The Administration requests a net budget reduction of \$26.1 million (various funds including Prop 1B bond funds), a reduction of 443 state staff resources (247 positions and 196 position-equivalents in overtime), and a reduction of 22 position-equivalents in contract-out resources. This request would result in a total COS budget of \$1.8 billion and 12,666 full-time equivalents (FTE) in state and contract resources. Included in the request is one-time funding of \$8.9 million for travel and insurance related to the construction of the new Bay Bridge (which is reimbursed funding from the Bay Area Toll Authority). Prop 1B workload is up, but overall workload is down due to a reduction in State Highway Operations and Protection Program (SHOPP) workload and a reduction in Partnership (locally-funded projects) workload.

Background / Detail: Every year, there is significant discussion between the Administration and Legislature concerning the appropriate split of COS workload between state staff and contract resources. There is also debate over the relative cost of state staff versus contract resources. The numbers assumed by the administration in compiling the budget request are that state staff cost \$121,000 (including all benefits and the standard cost of operating expenses and equipment) and contract out resources cost \$217,000 per FTE. However, Caltrans argues that additional overhead is associated with state staff that might appropriately increase the cost of state staff above \$121,000. For budgeting purposes, staff recommends the Subcommittee consider the cost of state staff at \$121,000 and contract resources at \$217,000 per full time equivalent – *the numbers used by the Administration in the budget request.* For comparison purposes, the following historical “Full Time Equivalent” chart was developed, with assistance from Caltrans.

Year	State Staff	Overtime	Contract Out	Total
1988-89	6,796	292	1,047	8,135
1989-90	7,072	310	937	8,319
1990-91	7,902	353	1,207	9,461
1991-92	8,789	379	1,305	10,474
1992-93	8,761	379	1,285	10,425
1993-94	8,696	305	855	9,856
1994-95	8,394	299	801	9,494
1995-96	7,782	298	803	8,883
1996-97	7,164	298	1,306	8,768
1997-98	7,538	351	1,176	9,065
1998-99	9,434	692	921	11,047
1999-00	9,854	546	592	10,992
2000-01	10,565	822	1,159	12,546
2001-02	11,072	650	1,646	13,368
2002-03	10,803	650	1,382	12,835
2003-04	10,245	303	500	11,048
2004-05	10,651	699	1,070	12,420
2005-06*	11,200	710	1,568	13,478
2006-07*	10,638	636	1,410	12,684
2007-08*	11,069	668	1,393	13,130
2008-09 Proposed	10,822	472	1,371	12,665
Long-run average %	85%	4%	10%	
2007-08 (at Budget Act)	84%	5%	11%	
2008-09 (Proposed)	85%	4%	11%	

* At the time of the Budget Act - excludes mid-year adjustments

LAO Comment: The Legislative Analyst believes that the COS budget request appears to be aligned with Caltrans' budget model for determining workload needs for project delivery. However, the LAO continues to analyze the request and may have additional comments at the hearing.

Staff Comment: By whatever measure is chosen, state staff are less expensive than contract-out staff. However, it is beneficial to maintain a certain level of contractor work to even out the peaks and valleys in workload across the state and in individual districts, and to prevent the need for layoffs when the workload drop is dramatic. Additionally, contract staff may be desirable where unique experience is needed for a specific project, such as the Bay Bridge replacement. As the table indicates, the Administration is requesting a slightly higher-than-average level of contract staff and a slightly lower-than-average level of state staff. Given the \$96,000 cost difference between state staff and contract staff (based on how Caltrans budgeted the costs in this request), adjusting the budget back to the long-run average of 90 percent state resources and 10 percent contract resources (by shifting 105 contract FTEs back to state staff) would result in a savings of about \$10 million.

Staff Recommendation. Shift 105 contract resources to state staff to achieve a savings of approximately \$10 million (i.e. retain 105 more state positions and reduce 105 more contract positions). Direct staff to work with the Administration to primarily shift, as feasible, workload funded by the State Highway Account (SHA) and federal funds (instead of Prop 1B funds or other funds) – this will produce SHA savings that could be used for needed State Highway Operation Protection Program (SHOPP) projects.

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