



2019 COST REPORT

THE DIG SAFE BOARD | SACRAMENTO, CALIFORNIA | DIGSAFE.FIRE.CA.GOV




MESSAGE FROM THE EXECUTIVE OFFICER

The 2019 Cost Report is the first of our annual publications designed to increase visibility into our cost planning and breed accountability to the Legislature, the public, and the fee payers into this nascent organization.

Regulations went into effect on January 1, 2019 requiring the one-call centers to collect a fee to support the Board's mission and operations. These regulations were written to maximize future year predictability for both the Board and its fee payers.

Consistent with that goal, this document highlights our expected costs and start-up loan repayment schedule and provides information that one-call center member budget managers can use to budget for the next several years.



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Executive Officer

California Dig Safe Board



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EXECUTIVE SUMMARY

The 2019 Cost Report is provided to allow members of the state's two regional notification ("one-call") centers to see the California Underground Facilities Safe Excavation ("Dig Safe") Board's projected expenses upon which their regulatory assessment is based. The Board will collect \$7.0 million from one-call center members in 2019 to cover its operating expenses, start-up loan repayment, loan interest, and reasonable reserve, an amount expected to continue through 2021, at which time the cost will level out to the \$3.8 million needed to collect operating costs alone. The year 2020, however, will likely have a further temporary fee reduction to account for a predicted high fund balance created by timing differences between loan repayment and the recognition of fee revenue.

This document is informational only, and official financial, budgetary, and accounting statements related to Board operations are available from the Department of Finance and the State Controller's Office. All projections for future year expenditures are subject to legislative approval in the annual Budget Act.




THE DIG SAFE BOARD & ITS REVENUE REQUIREMENT

As the year 2019 begins, California is thriving. Now the world's fifth largest economy, its construction spending was \$63 billion in 2017 and predicted to increase 55% by the year 2021. To protect California's investment in its people, workforce, and infrastructure— and in the wake of fatal 2015 dig-ins in Fresno and Bakersfield— the Legislature passed the Dig Safe Act of 2016 and in the 2017-18 State Budget funded the California Underground Facilities Safe Excavation (“Dig Safe”) Board to implement the Act.

In 2019 the one-call centers will begin to collect a fee on member invoices to fund Dig Safe Board operations to provide oversight of the “call before you dig” process and promote safe practices through education and outreach, standard development, and enforcement activities. The 2019 Plan, available on the Board's website, set clear priorities and laid out the work that needs to be done to develop the Board as a modern safety oversight body.

Board activities that will continue in 2019 will have the following public safety benefits:

- Ensure safety and communication around infrastructure in agricultural areas by developing an annual Ag ticket process.
- Determine the causes of accidents through investigation of root causes.
- Correct errors and other violations of the one-call law found through investigation by developing educational curricula.
- Enforce violations that rise above the education threshold through referral of enforcement actions to California Public Utilities Commission, Office of the State Fire Marshal, and Contractors State License Board.



The fee will go toward a revenue requirement of \$7.0 million for the calendar years of 2019, 2020, and 2021 before dropping to a steady state of \$3.8 million. The larger amount needed for calendar years 2019 through 2021 will cover the Board's operational expenses, repayment of its two-year startup loan, and building of a reasonable reserve. After startup loan repayment in 2021, revenue will only be needed to cover operational expenses.

Due to a delay between when the surcharge is assessed and revenue is recognized (see page 12, *REVENUES: REGULATORY FEES*, for a description) and the repayment of the loan due in the middle of 2021, the Board is expected to have a high fund balance from revenues recognized in the second half of 2021, and projects to reduce the amount of surcharge collected in calendar year 2022. Currently, a revenue requirement of \$2.8 million is projected for 2022, but this number is subject to adjustment as 2022 approaches.

HOW TO CALCULATE YOUR FEE

Government Code Section 4216.16 identifies one-call center members as a source of the Board's operational expenses, and Section 4010 of Title 19 of the California Code of Regulations implements the statute, identifying the formula by which each one-call center member's fee (assessed as a charge on the one-call centers' existing bills) is calculated:

$$\text{Fee} = \frac{\text{member located request transmissions (previous year)}}{\text{statewide locate request transmissions (previous year)}} \times \text{Board operational expenses (current year)}$$

WHERE:

"member locate request transmissions" is the number of billable locate request transmissions the one-call center member received in the previous calendar year,

"statewide total locate request transmissions" is the total number of billable locate request transmissions issued by both USA North and DigAlert in the previous calendar year (not including those locate request transmissions issued to members who received less than 200 locate request transmissions in that year), and

"Board operational expenses" is the sum of the estimated operational expenses, including any loan repayment, of the Board in the current calendar year, subject to the State Budget Act.

This formula, based on that used by USA North, was chosen for year-to-year predictability, both for the Dig Safe Board and for one-call center members. While the percentage of a one-call center member's transmissions is not known until the last ticket is processed on December 31 each year, the Board's operational expenses may be decided earlier. This report provides one-call center members with information on the Board's expenses in the upcoming calendar year and projects expected expenses for future years to assist members with long term planning.

WHAT IS “BILLABLE”?

The Board bills for transmissions that stem from new, renewal, and remark tickets. Currently USA North and DigAlert have different names describing these ticket types. Using their terminologies, here are the ticket types that are billable for the Dig Safe Board:



- NEW
- EXTENSION
- RENEWAL
- REMARK



- NEW
- UPDATE
- REMARK

Both one-call centers are currently engaged in a ticket standardization process, and so the terms both will use are expected to be harmonized by March 2019.



“BILLABLE” Q & A

Q:

Is “billable” for the Dig Safe Board the same as “billable” for USA North?

A:

Yes. You can use your number of billable tickets from USA North to calculate the Dig Safe Board Surcharge.

Q:

Is “billable” for the Dig Safe Board the same as “billable” for DigAlert?

A:

No. DigAlert only bills for new tickets. A good rule of thumb is to add 40% to your number of DigAlert tickets and use that to calculate your Dig Safe Board surcharge.

Q:

With the strong economy, 811 ticket numbers keep going up. Does that mean my Dig Safe Board fee will increase as well?

A:

No. You are charged based on your percentage of all tickets transmitted to one-call center members. If your share of ticket transmissions is stable, your total fee will be insulated from the effects of the economy.

EXAMPLE 2019 FEE CALCULATION

A large utility might have had 750,000 billable locate request transmissions (from new, renewed, or remark tickets) in 2018, out of a total of 12,183,298 billable transmissions statewide, or about 6% of the total number of tickets. The fee, under this situation, would be:

$$\frac{750,000}{12,183,298} \times \$7,000,000 = \$430,917.80$$

On the other hand, most one-call center members are much smaller. The median member receives roughly 600 tickets, or 0.005% of the statewide total, and so would pay:

$$\frac{600}{12,183,298} \times \$7,000,000 = \$344.73$$

All members with less than 200 billable transmissions are exempt from the fees. This represents roughly 35% of all the members, but less than 0.5% of the one-call centers' total revenue. The minimum a member can expect to pay, if the member has 200 transmissions, is:

$$\frac{200}{12,183,298} \times \$7,000,000 = \$114.91$$

This charge would be assessed on each member's one-call center membership bills. For those members who pay their bills monthly, the fee will be divided equally among the 12 monthly bills. For those members who are involved once a year, the fee will be assessed in total on that bill.



HISTORY OF DIG SAFE BOARD FINANCING

The Board, created by the Dig Safe Act of 2016, was funded in the state's Budget Act of 2017 through a two-year loan from a state telecommunications fund, to be repaid on July 1, 2019. In the Budget Act of 2018 the Legislature, recognizing the need to extend the loan repayment period to ease the burden on the one-call center members, granted the Board's request to extend the repayment period until July 1, 2021. Therefore, the Legislature expected the Board to begin collecting a fee to support its operations in advance of the 2019-20 fiscal year and to have collected enough by July 1, 2021 to repay its two-year start-up loan in its entirety.

To implement this directive, the board opened a public rulemaking on June 22, 2018 to approve regulations that would assess a fee on one-call center members. The regulations, which went into effect January 1, 2019, allow the board to collect enough money in the calendar years of 2019, 2020, and 2021 to maintain its operations, repay the loan and the interest on the loan and build a reasonable operating reserve in advance of 2022, when the Board will only need to collect enough to cover its operating costs.



DETAILED FUND CONDITION STATEMENT

Agency 3540: Department of Forestry and Fire Protection | Fund 3302: Safe Energy Infrastructure and Excavation Fund

| | 2017-18 Actual | 2018-19 Projection | 2019-20 Projection | 2020-21 Projection | 2021-22 Projection | 2022-23 Projection | 2023-24 Projection |
|--|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| BEGINNING FUND BALANCE | \$ - | \$ 4,811 | \$ 2,585 | \$ 5,455 | \$ 919 | \$ 3,037 | \$ 2,058 |
| ADJUSTED BEGINNING BALANCE | \$ - | \$ 4,811 | \$ 2,585 | \$ 5,455 | \$ 919 | \$ 3,037 | \$ 2,058 |
| REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS | | | | | | | |
| Revenues | | | | | | | |
| Regulatory Fees | \$ - | \$ 1,485 | \$ 7,000 | \$ 7,000 | \$ 6,109 | \$ 3,012 | \$ 3,800 |
| Delinquent Fees | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Penalty Assessments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Transfers and Other Adjustments | | | | | | | |
| Loan from High Cost Fund B Administrative Fund (0470) to the Safe Energy Infrastructure and Excavation Fund (3302) per 2017-18 Budget Item 8660-401-0470 | \$ 7,406 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Loan Repayment from Safe Energy Infrastructure and Excavation Fund (3302) to High Cost Fund B Administrative Fund (0470) | \$ - | \$ - | \$ - | \$ (7,406) | \$ - | \$ - | \$ - |
| Total Revenues, Transfers, and Other Adjustments | \$ 7,406 | \$ 1,485 | \$ 7,000 | \$ (406) | \$ 6,109 | \$ 3,012 | \$ 3,800 |
| TOTAL RESOURCES | \$ 7,406 | \$ 6,296 | \$ 9,585 | \$ 5,049 | \$ 7,028 | \$ 6,049 | \$ 5,858 |
| EXPENDITURES AND EXPENDITURE ADJUSTMENTS | | | | | | | |
| Expenditures: | | | | | | | |
| Expenditures | | | | | | | |
| State Operations - Support | \$ 2,595 | \$ 3,613 | \$ 3,851 | \$ 3,851 | \$ 3,712 | \$ 3,712 | \$ 3,712 |
| Adjustments | \$ - | \$ 98 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Statewide Assessments | | | | | | | |
| Pro Rata | \$ - | \$ - | \$ 279 | \$ 279 | \$ 279 | \$ 279 | \$ 279 |
| Total Expenditures and Expenditure Adjustments | \$ 2,595 | \$ 3,711 | \$ 4,130 | \$ 4,130 | \$ 3,991 | \$ 3,991 | \$ 3,991 |
| Ending Fund Balance | \$ 4,811 | \$ 2,585 | \$ 5,455 | \$ 919 | \$ 3,037 | \$ 2,058 | \$ 1,867 |

Notes on the Fund Condition Statement:

- Figures for the 2017-18, 2018-19, and 2019-20 Budget years were reported in the 2019-20 Governor's Budget, which may be found at www.ebudget.ca.gov. Figures for the 2020-21 fiscal year and beyond are extrapolated from the 2019-20 Governor's Budget. Please note the amounts shown for fiscal year 2017-18 represent the Board's actual expenditures as compared to fiscal years 2018-19 through 2023-24, which reflect budgeted amounts.
- Projected expenditures for fiscal years 2019-20 through 2023-24 are subject to review and approval by the Legislature through the state's budget process.
- Revenue is paid via a charge on one-call center membership bills. As such, the charge is collected by the one-call centers on their members' billing schedules. For DigAlert, bills are paid monthly. USA North bills on monthly, annual (calendar year), and annual (fiscal year cycles).
- Revenue is not recognized at the time it is paid to the one-call centers. Instead, one-call centers, pursuant to Section 4010 of Title 19 of Code of California Regulations (19 CCR 4010), are required to remit payment to the Board on April 1 and October 1 of each year.
- Revenue from penalty assessments is unknown, but any such revenue could not go toward the Board's operating expenses, pursuant to Government Code Section 4216.24.

BOARD FUND CONDITION COMPONENTS

REVENUES: REGULATORY FEES

These revenues come from fees assessed on one-call center members. While fees are assessed on one-call center members on their billing cycles, the revenues aren't recognized until they are available to the Board. Revenues lag billing for several reasons. One-call center members have between 45 and 60 days to pay invoices once they receive them. Pursuant to proposed regulation, one-call centers remit these fees to the Board twice annually—April 1st and October 1st. Finally, the Board expects CAL FIRE's accounting office will need up to 30 days to process the remittances before they become available to the Board. The cumulative effect on this lag can be seen in Table 1.

| Year | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------------------|------|------|----------|----------|----------|----------|----------|----------|
| Fee Assessment | \$ - | \$ - | \$ 7,000 | \$ 7,000 | \$ 7,000 | \$ 2,800 | \$ 3,800 | |
| Fee Recognition (Calendar Year) | \$ - | \$ - | \$ 5,506 | \$ 7,000 | \$ 7,000 | \$ 3,696 | \$ 3,587 | |
| Fee Recognition (Fiscal Year) | | \$ - | \$ 1,485 | \$ 7,000 | \$ 7,000 | \$ 6,109 | \$ 3,012 | \$ 3,800 |

Table 1: Lag Between One-Call Member Billing and Board Revenue Recognition

REVENUES: DELINQUENT FEES

Pursuant to regulation, the Board will be able to assess a late fee of 5% on any one-call center member. There is no expectation that this late fee will be needed.

REVENUES: PENALTY ASSESSMENTS

Revenue from penalty assessments is unknown, but any such revenue could not go toward the Board's operating expenses pursuant to Government Code Section 4216.24. Hence, revenues from penalty assessments will have no effect on the fee the Board must assess to cover its operating expenses.

TRANSFERS: LOAN FROM HIGH COST FUND-B

The Budget Act of 2017 provided the Board a start-up loan. The interest rate at the time of transfer, set by the state's Pooled Money Investment Account, was 1.48%

TRANSFERS: LOAN REPAYMENT TO HIGH COST FUND-B

The state's Budget Act of 2018 set the repayment date of the start-up loan at July 1, 2021. The fee is expected to be repaid in installments as surplus revenue in excess of operating costs becomes available in late 2019.

EXPENDITURES: STATE OPERATIONS

Government budgeting differs fundamentally from that of business enterprises. Businesses receive revenue from a willing buyer and seller, whereas governments generally receive funds from the imposition of taxes, fees and other assessments. As part of the checks and balances of government and to ensure that the services level provided by state departments is commensurate with the resources available to them, the state Legislature is vested with appropriation authority that sets spending caps through the budget process. A unit of government—such as the Dig Safe Board—cannot spend more than its legislatively-authorized appropriation limit in a single year. As a corollary, any money left unspent from one fiscal year cannot be added onto the appropriations cap in the next fiscal year without legislative approval. This predictability can be seen in the projected fund condition statement (p.11), where the Board is expected to have appropriation limit set by the Legislature that is largely invariant, and the Board is expected to spend to that limit.

The Board was allocated a total of 23 positions through a 2017-18 budget change proposal that was approved by the Legislature. Eleven of these positions were authorized starting in fiscal year 2017-18 while the remaining twelve positions were authorized starting in fiscal year 2018-19. The first eleven positions were to set the administrative and regulatory ground work for the program in advance of hiring investigators beginning July 1, 2018. Table 2 shows the position authority and appropriation limit for the previous fiscal year, the current fiscal year, and the expected limits for the next two fiscal years.

| Positions | | | | Expenditures | | | |
|-----------|---------|---------|---------|--------------|---------|---------|---------|
| 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| 11.0 | 23.0 | 23.0 | 23.0 | \$2,595 | \$3,711 | \$3,851 | \$3,851 |

Table 2: 4-Year Expenditures and Positions

The Board is requesting additional funding of \$139,000 in fiscal years 2019-20 and 2020-21, as reflected in the projections above, to implement AB 1914 (Flora), enacted on September 23, 2018, which requires the Board to develop regulations to determine permissible power tool use within the tolerance zone. These funds are included in the 2019-20 Governor's Budget, but the request is subject to approval by the Legislature and enactment of the Budget Act of 2019. Cost reports in future years will be modified to reflect the disposition of this request.

EXPENDITURES: PRO RATA

Within the state, there are several central service departments that provide general administrative support to all state departments, such as the California Department of Human Resources and the Department of General Services. These central services costs are charged back to each department that benefits from the services and paid directly from each applicable special fund through the Pro Rata process. The amount of Pro Rata assessed against each fund is calculated using a consistent methodology and generally based on the percentage of total expenditures in each fund. More information regarding Pro Rata is available on the Department of Finance's website.

As explained above, Pro Rata is technically not a departmental expenditure and is instead paid directly from each fund which is why it is reflected as a separate line item in the projected fund condition statement on Page 11. Given that Pro Rata assessments can fluctuate from year-to-year, the Board is not able to provide an estimate of future Pro Rata costs at this time. It is likely that the Pro Rata amounts will increase in subsequent fiscal years and the Board will update future reports to reflect the most recent Pro Rata assessment data.

HIGHLIGHTED NON-RECURRING EXPENDITURES

FISCAL YEAR 2017-18

The Legislature provided one-time additional spending authority for operating expenses and equipment to cover significant Board start-up costs, primarily for equipment to support Board investigators, including cars, cameras, GPS devices, cell phones, and tablets for evidence collection. Additionally, the Board paid one-time costs to acquire office space and office furniture in Sacramento. Staff, with the assistance of CAL FIRE's Technical Services Office, were not able to complete the Department of General Services lease acquisition process for an office in Southern California during the 2017-18 fiscal year and so deposited roughly \$550,000 into the state's Architecture Revolving Fund for tenant improvement and other costs associated with opening an office in Southern California.

CURRENT & FUTURE YEARS

The Board, with the assistance of CAL FIRE's Information Technology Office, has issued a request for proposals to acquire a case management system to handle its investigation and enforcement files. This is expected to have unknown one-time costs in the current fiscal year and an ongoing subscription fee, which the Board will absorb within its existing budgetary resources.



For a hard copy of this report, please contact the California Dig Safe Board at the Office of the State Fire Marshal at (916) 568-3800. The report may also be accessed on the Board's website: <https://digsafe.fire.ca.gov>.



THE CALIFORNIA DIG SAFE BOARD

The Dig Safe Board improves public and worker safety by facilitating communication learning among excavators and the operators of subsurface installations by investigating accidents to determine their causes.



THE DIG SAFE BOARD

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