

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER TOM DALY, CHAIR****TUESDAY, APRIL 9, 2013****1:30 P.M. - STATE CAPITOL ROOM 447**

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VOTE-ONLY CALENDAR

9650 HEALTH AND DENTAL BENEFITS FOR RETIRED ANNUITANTS

VOTE-ONLY ISSUE 1: RETIREE HEALTH BUDGET BILL PROVISIONAL LANGUAGE

The Governor's budget requests new budget bill language to authorize the California Public Employees Retirement System (CalPERS) to correct errors in the calculation of service credit for the vesting of post-retirement health and dental benefits that occurred prior to the implementation of MyCalPERS system.

BACKGROUND

The Health and Dental Benefits for Retired Annuitants provides funding for health and dental benefits services for retired state employees and their dependents. The health program began in 1962 and dental care was added in 1982. The 2012-13 employer contribution for health premiums maintains the average 100/90 percent contribution formula established in Government Code 22871 for fully vested members. The state also contributes 90 percent of this average towards the health benefit costs of each of the retiree's dependents.

Responsibility for managing health care programs for state workers, state retirees, and employees or retirees of participating local agencies is vested with CalPERS. Budget Item 9650 pertains to health and dental benefits for state retirees and totals \$1.5 billion.

Prior to MyCalPERS, CalPERS manually calculated service credit for the vesting of post-retirement health and dental benefits. When MyCalPERS went live in 2011, a small number of errors were discovered in the initial vesting calculation for individual retirees. The underpayments totaled \$750,000 and the overpayments totaled \$2,100.

STAFF COMMENTS

CalPERS worked with the Department of Finance to correct the errors for overpayments and underpayments. The budget bill provisional language will address the errors identified and is applicable to 2013-14 only. This issue is expected to be a one-time problem, but if it does occur again, this same language could be modified and introduced in future budget years.

The subcommittee may wish to do the following: (1) place a limit on funding available for 2013-14 “up to 1 million dollars” of the appropriation (the underpayment is expected to be \$750,000); and (2) incorporate a legislative reporting requirement.

Provision x: Up to \$1,000,000 of ~~T~~his appropriation shall also be available for the purpose of reimbursing state annuitants' share of health premiums from prior years or the current year due to a correction of errors or omissions in calculating service credit for the vesting of post-retirement health and dental benefits. The California Public Employees' Retirement System shall report to the Legislature before October 1, 2013, (1) the number of annuitants who received or will receive a reimbursement pursuant to this provision, (2) the amount of money reimbursed or will be reimbursed to annuitants pursuant to this provision, (3) the number of annuitants who reimbursed or will reimburse the state pursuant to this provision, and (4) the amount of money reimbursed or will be reimbursed to the state pursuant to this provision.

0511 GOVERNMENT OPERATIONS AGENCY

VOTE-ONLY ISSUE 2: FUNDING SUPPORT FOR GOVERNMENT OPERATIONS

The Governor's budget includes one BCP to establish funding support in the amount of \$3,429,000 (\$1,336,000 General Fund) and 17.0 positions for the Government Operations Agency effective July 1, 2013.

BACKGROUND

The Government Operations Agency (Agency) was created as part of the Governor's Reorganization Plan 2 (GRP 2). GRP 2 took effect on July 3, 2012, and its goal was to better align departments and other entities with similar purposes. The Agency incorporates the major components of state administration, including procurement, information technology, and human resources. Prior to GRP 2, these functions were dispersed among different state agencies. Combining these and other functions will make the state government more efficient.

The following departments are included in the new Government Operations Agency:

- Department of General Services
- Department of Human Resources
- Department of Technology
- Office of Administrative Laws
- Public Employees Retirement System (PERS)
- State Teachers Retirement System (STRS)
- State Personnel Board
- Franchise Tax Board
- Victim Compensation and Government Claims Board

Funding support for the Agency is proposed from the departments and other entities under the Agency's umbrella. The total cost of the Agency was allocated to each department based on each entity's position totals.

STAFF COMMENTS

Staff has no concerns with this proposal.

7503 STATE PERSONNEL BOARD

VOTE-ONLY ISSUE 3: COMPLIANCE REVIEW AUDIT PROGRAM

The Governor's budget includes trailer bill language to authorize the State Personnel Board (SPB) to bill departments on a pro-rata basis for the costs of its Compliance Review Audit Program.

BACKGROUND

The Governor's Reorganization Plan 1 (GRP 1) of 2011 consolidated the entire Department of Personnel Administration (DPA) and many of the operational functions of SPB into the new Department of Human Resources (CalHR). SPB retained its policy setting function over the merit system and continues to review disciplinary and merit related appeals. SPB also conducts departmental audits to ensure compliance with the merit system. GRP 1 also retained 11 positions and \$1.5 million to allow SPB to reinstate the Compliance Review Audit Program. The program ensures that the departmental level personnel policies are in compliance with civil service statutes and board regulations that enforce the merit principle.

STAFF COMMENTS

The pro rata billing option presented in the trailer bill language enables departments to budget appropriately for the audits. It allows departments to budget for a set amount annually. Departments have expressed an interest to have the option to pay on a pro rata basis. SPB has stated that they will report to the board on the results of the Compliance Review Audit Program.

The Subcommittee may wish to discuss amending trailer bill language to require SPB to provide a copy of the annual report to the appropriate committees of the Legislature as well.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

VOTE-ONLY ISSUE 4: EMERGENCY SOLUTIONS GRANT AND HOME PROGRAM FUNDING ADJUSTMENT

The Governor's budget proposes four BCPs for the Housing and Community Development Department (HCD). Two of these BCPs are discussed below including the Emergency Solutions Grant (ESG) and the HOME Program Funding Adjustment.

BACKGROUND

1. Emergency Solutions Grant: The Governor's budget requests additional federal budget authority for HCD in 2013-14 to fund the Emergency Solutions Grant program including \$425,000 in State Operations and four positions and \$7,500,000 in Local Assistance.

The U.S. Department of Housing and Urban Development (HUD) has combined and expanded the previous Federal Emergency Shelter Grant (FESG) and Homelessness Prevention and Rapid Re-Housing programs (HPRP) under a new program called the ESG program and increased the funding by \$7,500,000 for 2013-14. As part of this effort, HUD has issued new rules regarding homelessness and homeless populations as well as expanded eligible activities for the ESG program. With the expansion of the new program, HCD anticipates an increase in new applications for the current year.

Projected Outcomes

Workload Measure	2012-13	2013-14	2014-15
Funding Requests submitted to HCD	\$17 M	\$18 M	\$19 M
Total Funds Awarded to HCD	\$15.3 M	\$15 M	\$15 M
Number of Applications submitted to HCD	125	262	240
Number of Contracts Awarded by HCD	62	125	115
Emergency Shelters – Number of persons served	18,398	20,988	24,230
Rapid Rehousing – Number of families served	1,457	1,662	1,919

From 2009-10 to 2011-12, eight staff supported the FESG and HPRP programs. In September 2012, four limited-term positions expired. The budget includes an increase in spending authority to fund the additional four positions needed to ensure that the Department can continue to administer grants to process more funds targeted to the homeless in California.

2. HOME Funding Adjustment: In response to significant federal cuts to the Home Investment Partnership program (HOME), the Governor's budget proposes the following budget adjustments:

- Reduction of State Operation federal budget authority of \$1,900,000 and 13 PYs for 2014-15; and
- Reduction of Local Assistance budget authority of \$35,000,000 for 2014-15.

The HOME Program was authorized by the Cranston-Gonzalez National Affordable Housing Act of 1990 and is the largest federal block grant to state and local governments. It was developed exclusively for the creation and preservation of affordable housing.

Recent federal budget actions have resulted in HUD reducing the allocation of funds to the HOME program. As a result, HCD's grant has been reduced from \$56 million in 2011-12 to \$31 million in 2012-13.

STAFF COMMENTS

Staff has no concerns with these proposals.

ITEMS TO BE HEARD

3100 CALIFORNIA SCIENCE CENTER

ISSUE 1: OVERVIEW OF THE SCIENCE CENTER

The Subcommittee will receive an overview presentation of the California Science Center.

BACKGROUND

Effective July 1, 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, the Science Center is moving to the Natural Resources Agency from the State and Consumer Services Agency.

The Science Center, the Office of Exposition Park Management and the California African American Museum (CAAM), are located in Exposition Park, a 160-acre tract in south Los Angeles, which is owned by the state and collectively known as the California Science Center. Its major exhibit facility opened in February 1998.

The mission of the Science Center is to stimulate curiosity and inspire science learning in everyone by creating fun, memorable experiences, because we value science as an indispensable tool for understanding our world, accessibility and inclusiveness, and for enriching people's lives. The Office of Exposition Park Management provides long-term leadership in the development and implementation of park usage policy and day-to-day management, operation and promotion of the park for its tenants and the public. CAAM researches, collects, preserves and interprets for public enrichment, the history, art and culture of African Americans with emphasis on California and the western United States.

The Governor's Budget contains one technical adjustment to reflect the anticipated levels of reimbursements due to a decrease of services from LAUSD. The Governor's budget requests a \$413,000 reduction in reimbursement authority for the Science Center to more accurately reflect the reimbursement expenditure level in the Governor's Budget. Currently, the Science Center's reimbursement authority is \$1,213,000. If approved, the Science Center's reimbursement authority will be reduced to \$800,000.

STAFF COMMENTS

The Science Center will provide an overview of its operations at the hearing.

Staff concurs with the adjustment to reimbursement authority proposal contained in the Governor's budget.

7501 DEPARTMENT OF HUMAN RESOURCES

7503 STATE PERSONNEL BOARD

Department of Human Resources Budget: The Department of Human Resources (CalHR) is responsible for managing the state's personnel functions and represents the Governor as the employer in all matters concerning state employee-employer relations. CalHR is responsible for issues relating to recruitment, selection, salaries, benefits, position classifications, and provides a variety of training and consultation services to state departments and local agencies. For the budget year, CalHR includes \$92.9 million, which represents a slight decrease over the current year budget of \$93.6 million, and 278.5 positions, a decrease of 6.9 percent.

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	\$6.1	\$8.1	\$7.2	\$(0.9)	(12.6)
Special Funds and Reimbursements	57.2	85.5	85.7	0.2	0.3
Total Expenditure	\$66.3	\$93.6	\$92.9	(0.7)	(0.8)
Positions	187.4	297.8	278.5	(19.3)	(6.9)

State Personnel Board Budget: The five-member State Personnel Board (SPB) was established to ensure that the state civil service system is free from patronage and that employment decisions are based on merit. SPB's members are appointed by the Governor and it provides a variety of recruitment, selection, classification, appellate, goal setting, training, and consultation services. SPB is supported by reimbursements with additional support from General Fund and special funds. For budget year 2013-14, its funding level is \$10.4 million a slight increase over current year with no change in positions at 69.7.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	-	\$1.1	\$1.1	\$0.0	0.0
Reimbursements	-	8.2	8.5	0.3	3.5
Central Service Cost Recovery	-	0.8	0.8	0.0	0.0
Total Expenditure	-	\$10.1	\$10.4	\$0.3	3.0
Positions	-	69.7	69.7	0.0	0.0

INFORMATIONAL ITEM 1: ADDITIONAL APPOINTMENTS OF EXEMPT EMPLOYEES

The Governor's Reorganization Plan 1 of 2011 consolidated the human resources management functions and authorities previously vested with SPB and Department of Personnel Administration, except for the constitutional responsibilities of SPB into CalHR. The goal was for state departments to have a single entity to offer guidance to non-merit personnel issues, and to allow SPB to retain its constitutional authority over the interpretation of civil service law and the merit-based system.

Recent media news brought attention to a state human resource practice where managers with a fixed salary also assumed a secondary rank-and-file position within the same department. On January 30, 2013, CalHR issued Policy Memo 2013-007 to prohibit departments from making any new additional appointments.

CalHR is currently in the process of reviewing relevant laws, rules, and prior procedures applied to additional appointments. CalHR has also requested all departments report the details of their additional appointments.

Affected departments have all pointed to a 1979 Personnel Management and Policy Procedures Manual (PMPPM) as guidance for standards and guidelines surrounding eligibility for additional appointments as well as the Government Code Sections 19050-19237 that deal with appointments.

STAFF COMMENTS

Current law does not prohibit additional appointments. Instead it outlines tests to ensure that the exempt status of the primary position is not compromised and to determine if compensation was applied properly. But in some cases, these tests were not

The state does not appear to have a consistent statewide policy to use for additional appointments. It is important to examine why the policy of additional appointments have been utilized by these departments throughout the State. These reasons could include impacts from increased workload, furloughs, and salary compaction.

The subcommittee may wish to ask CalHR and SPB to respond to the following questions:

- It is unclear at this time, which agency is in charge of human resources policies. Current practice provides CalHR with the ability to stop policies such as the additional appointments. Current practice also allows SPB to create and review the Personnel Management and Policy Procedure Manual. Will there be a clear policy as to who will take the lead in statewide policy on additional appointments, SPB and/or CalHR?
- What is the current statewide process for approving additional appointments? Do they vary by department?
- How long will it take CalHR to review existing additional appointments?

7501 DEPARTMENT OF HUMAN RESOURCES

ISSUE 1: IMPLEMENTATION OF IN-HOME SUPPORTIVE SERVICES EMPLOYER-EMPLOYEE RELATIONS ACT

The Governor's budget requests \$563,000 GF and four positions to implement a 2012 budget trailer bill pertaining to the In-Home Supportive Services (IHSS) Employer-Employee Relations Act.

This request was revised by the Administration on March 1, 2013, to instead propose the costs be split 50 percent GH and 50 percent Reimbursements (federal funds). The Department of Social Services would apply for and receive federal funds for 50 percent of the costs and transmit those dollars to CalHR. The revised proposal includes budget bill provisional language providing a GF backstop should the federal funds not materialize as projected. Additionally it requires notification to the Joint Legislative Budget Committee should the backstop be utilized.

BACKGROUND

The Budget Act of 2012 authorized the Coordinated Care Initiative (CCI), whereby persons eligible for both Medicare and Medi-Cal would receive medical, behavioral, long-term support and services, and home and community based services coordinated through a single health plan in eight demonstration counties (Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara).

In 2012, there were about 380,000 IHSS providers with hourly rates varying by county. Prior to July 1, 2012, county public authorities or non-profit consortia were designated as "employers of record" for collective bargaining purposes on a statewide basis. Pursuant to Chapter 45, collective bargaining responsibilities in the eight counties participating in CCI will shift to an IHSS Authority administered by the state.

The scheduled phasing for the enrollment for CCI in the eight pilot counties has been delayed. The state had been waiting for an approval on their Memorandum of Understanding with the federal Centers for Medicare and Medicaid Services (CMS) to implement CCI. Recently, this approval was granted at the end of March. As a result the schedule for phasing, which has already been delayed, has been revised to begin in October 2013.

The budget request assumes that in June 2014 collective bargaining responsibility will begin to transfer to the Statewide Authority and CalHR will be expected to bargain on behalf of the Statewide Authority. The Governor's proposal assumes that the four positions will allow CalHR to begin to prepare a collective bargaining platform on behalf of the Statewide Authority, including examining current contracts, observing bargaining

sessions, among other things. The staff will also assess the resources needed to begin full implementation.

STAFF COMMENTS

Subcommittee 1 has jurisdiction over the larger policy issues associated with IHSS. This item will also be heard in Subcommittee 1 on Wednesday, April 10, 2013. There is general support to provide the initial resources needed to create the Statewide Authority and staff will continue to monitor the progress of the transition.

7900 PUBLIC EMPLOYEES RETIREMENT SYSTEM

INFORMATIONAL: OVERVIEW OF PUBLIC RETIREMENT SYSTEM

The Subcommittee will receive an overview presentation by the Public Employees Retirement System.

BACKGROUND

The California Public Employees Retirement System (CalPERS) administers the retirement benefits for state and local agency employees. CalPERS also provides health benefits for retired and active employees. CalPERS is governed by a Board of Administration that has authority over the administration of the retirement system. CalPERS receives funding from non-General Fund sources for administrative costs, largely from retirement fund resources themselves. The budget shows a slight increase in state operations for 2013-14 from \$357.0 million in the current year to \$358.0 million in the budget year. There is no change in positions from current the year at 2,563.4. Under the Governor's reorganization plan, CalPERS moves to the new Government Operations Agency from the State and Consumer Services Agency on July 1, 2013.

Budget year payments for CalPERS will be \$1.803 billion General Fund, \$1.185 billion special funds, and \$550 million non-governmental cost funds. In addition, CalPERS payments for California State University will total \$470 million General Fund and \$0.3 million in other funds. These "non-add" amounts are not reflected in the figure below. Expenditures noted below largely consist of benefit payments to retirees.

Pension Reform Implementation

Last year, the Governor signed AB 340 (Furutani), Chapter 286, Statutes of 2012), the Public Employees' Pension Reform Act (PEPRA) of 2012. The measure reformed the retirement formulas for any new employee for state and local governments and schools hired after January 1, 2013. PEPRA provides lower pension benefits and requires higher retirement ages for these new employees. Additionally, it requires state employees in bargaining units to pay higher payroll contributions in exchange for increases in top step adjustments and health care contributions. The 2013-14 budget includes an increase of \$502.1 million (\$247 million in General Fund revenues) for these previous negotiations.

ISSUE 1: DEPENDENT ELIGIBILITY VERIFICATION

CalPERS requests a one-time augmentation of \$2,005,000 to the Contingency Reserve Fund to implement a dependent eligibility verification project.

BACKGROUND

In an effort to contain rising health benefit costs, CalPERS is conducting a verification of all dependents enrolled in CalPERS, California Association of Highway Patrolmen, and California Correctional Peace Officers Association health benefit programs. It is estimated that removing ineligible dependents from employee's plans could result in approximately \$21.5 million in health claims cost avoidance.

Before the verification process begins, CalPERS will allow an amnesty period for voluntary disenrollment of ineligible dependents on a prospective basis. The amnesty period will begin April 1, 2013, and will end on June 30, 2013.

Through an outside vendor, CalPERS will require members who have one or more dependents receiving health benefits to verify their dependent's eligibility. The verification process will run from July 2013 to June 2015. Members must provide supporting documentation to verify that their dependents are currently eligible for benefits. Members who do not submit proper dependent verification documents to the vendor during this time will have their dependents disenrolled from their health plan.

STAFF COMMENTS

This is the first time that CalPERS is undertaking a comprehensive review of dependent eligibility verification. These changes will make long term improvements to the process. The subcommittee may wish to inquire about how CalPERS plans to monitor this long term and whether they will set up any policies to deal with the results of the verification process.

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

INFORMATIONAL ITEM 1: OVERVIEW CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

The Subcommittee will receive an overview presentation by the California Teachers' Retirement System.

BACKGROUND

The California State Teachers Retirement System (CalSTRS) administers the retirement benefits for active and retired elementary school and community college district teachers. The CalSTRS board has exclusive control over investment and administration of the retirement fund. The twelve member board consists of Superintendent of Public Instruction, State Treasurer, State Controller, Director of Finance, five members appointed by the Governor, and three members elected by active CalSTRS members. The primary responsibilities of CalSTRS are to maintain a financially sound retirement system, maintain an efficient operational program, and improve the delivery of benefits and services to members. CalSTRS is responsible for the determination and payments of benefits to members, retirees, and their beneficiaries. CalSTRS receives funding from non-General Fund sources for administrative and operational costs, largely from retirement fund resources themselves. For 2013-14, the state operations budget is \$193.7 million and 986.0 positions versus \$156.7 million and 958.0 positions in the current year.

General Fund contributions to the retirement fund for 2013-14 is budgeted to be \$1.358 billion: \$580 million for purchasing power protection (also called "Supplemental Benefit Maintenance"); and \$777 million for the base 2.017 percent contribution. The proposed funding in 2013-14 is slightly less than the \$1.360 billion funding in 2012-13. These "non-add" General Fund payments are not reflected in the figure below.

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	\$0.0	\$0.0	\$0.0	\$0.0	0.0
Teachers Retirement Fund	11,062.5	11,978.7	12,958.7	980.0	7.6
Other Retirement Funds	43.1	48.3	52.7	4.4	8.3
Total Expenditure	\$11,105.6	\$12,027.0	\$13,011.4	\$984.3	7.6
Positions	851.9	958.0	986.0	28.0	2.8

ISSUE 1: CALIFORNIA TEACHERS' RETIREMENT SYSTEM BUDGET CHANGE PROPOSALS

The Governor's proposal includes eight BCPs related to the California Teachers' Retirement System.

BACKGROUND

The CalSTRS includes eight BCPs related to their budget. The BCPs are summarized below:

1. **Technology Projects – Vacant Positions:** This is an information item only. In accordance with Budget Letter 12-03, a total of 25 permanently authorized positions that are vacant due to the ongoing turnover will be used in 2013-14 for Business Renew program management.
2. **External and Internal Audits:** The budget proposes \$1,338,000 in permanent funding and 13 positions for external audit services and to establish positions to perform an increased volume of audits of reporting employers and for associated impacted business administrative activities.
3. **Orange County Member Service Center:** The budget proposes \$1,604,000 in one time funding for 2013-14 and \$799,000 in permanent funding in 2014-15 to support the establishment of a CalSTRS-operated Member Service Center in Orange County. CalSTRS is transitioning to a new business model to provide benefit counseling services to members. CalSTRS plans to open five offices to operate under the new model. The Glendale Member Service Center opened in FY 2011-12, the Bay Area Member Service Center will open in June 2013, and the Orange County Member Service Center will be the third member service center.
4. **Information Security Records Management:** The budget proposes a total of \$197,000 and two permanent positions to perform regular web application security. The first positions (\$111,000) will be dedicated to CalSTRS enterprise systems and network to perform regular web application security assessments and monitor the daily access and activity on CalSTRS enterprise systems and networks. The second position (\$86,000) will support the final phase of the conversion of paper documents and processes to electronic documents and processes and establish internal controls for the availability and retention of electronic records.
5. **Medical Vocational Evaluations:** The Administration's budget proposes \$225,000 in a permanent augmentation for external contracting for the increase in independent medical examiners and independent vocational evaluation programs.

6. **Additional Human Resources Staff:** The budget proposes \$357,000 and four permanent positions to work in Human Resources. In the past six years, the total number of budgeted positions has increased by 14.3 percent, but the Human Resources staff has not increased to respond to the demand.
7. **Conversion of Contracted Services to Permanent Staff:** CalSTRS is moving towards reducing reliance on contractors and transitioning knowledge and expertise to permanent positions. The budget requests nine permanently authorized positions for Information Technology. No additional funding is needed because the current contracted monies will be redirected to cover the costs of the positions.

Additionally, the budget includes a conversion of six permanently authorized positions that are vacant due to ongoing turnover to be used in 2013-14 for member counseling. Funding for these positions will be redirected from external consulting and temporary help to cover the costs.

STAFF COMMENTS

Staff has no comments on these BCPs.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

INFORMATIONAL: OVERVIEW OF MAJOR PROGRAMS

The Department of Housing and Community Development will provide an overview of its major programs and recent reorganization with California Housing Finance Agency (CalHFA).

BACKGROUND

The mission of the Department of Housing and Community Development (HCD) is to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians. The HCD: (1) administers housing finance, economic development, and community development programs; (2) develops housing policy and advocates for an adequate housing supply; and, (3) develops building codes and regulates manufactured homes and mobile-home parks. The HCD also provides technical and financial assistance to local agencies to support housing development.

The mission of CalHFA, which was statutorily chartered in 1975 to be the State's affordable, housing bank, is to create and finance progressive housing solutions so that more Californians have a place to call home. The agency is financially self-supporting, setting loan interest rates slightly above its costs and charging fees to cover investments related to bond proceeds.

Under the Governor's Reorganization Plan 2, CalHFA merges into the HCD beginning on July 1, 2013. The Governor's Budget proposes total spending of \$369 million (\$7.1 million General Fund) for HCD in 2013-14 with 869.1 positions, which combines both HCD and CalHFA positions.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund - HCD	\$7.3	\$7.0	\$7.1	\$0.1	1.2
CalHFA Funds	46.7	48.0	48.1	0.1	0.2
All Other HCD Funds	505.0	331.5	313.4	(18.1)	(5.8)
Total Expenditure	\$559.0	\$386.6	\$368.6	\$(17.9)	(4.9)
HCD Positions	497.6	538.1	534.3	(3.8)	(0.7)
CalHFA Positions	304.5	334.8	334.8	0.0	0.0
Total Positions	802.1	872.9	869.1	(3.8)	(0.4)

ISSUE 1: HEADQUARTERS RELOCATION

The budget proposes an augmentation of \$2,022,000 to support one-time moving and increased rental rate for the Department of Housing and Community Development to relocate its headquarters.

BACKGROUND

HCD leases a 122,781 square feet (sf) at its current headquarters location 1800 3rd Street. IN 2011-12 HCD intended on extending its lease for another four years. In May 2012, HCD was informed that the owner would be exercising its option not to renew or enter into a new lease with HCD. HCD's lease expires in April 2013. HCD is currently working to extend its lease to see how long it can occupy the current headquarters building.

HCD has established an account in the Architectural Revolving Fund (ARF) but does not have the funding to support one-time costs associated with relocation, such as the cost of relocating its data center to the state data center as required under current statewide IT policy, and higher facility rental rates. HCD requests a state operations budget augmentation of \$2,022,000 (one-time costs of \$3,131,000 plus one year of ongoing of \$274,000, less \$1,383,000 that HCD has set aside).

HCD has leased its current location since 1988 and has been able to maintain lower than market rental rates. HCD will be subject to current market rental rates, which will likely include substantial tenant improvement costs to prepare a building for HCD's needs. HCD's current rent is \$1.82 per sf for 122,781 sf for a total cost of \$223,461 a month and \$2,682,000 annually. The average market rental rate per sf is \$2.50 per sf. HCD requires at least 100,000 sf of space for a new location.

STAFF COMMENTS

HCD reports that in late December, a lease was executed for just over 100,000 sf within the building at 2020 W. El Camino in South Natomas area. The lease is drafted to assume a start date of August 1, 2013.

ISSUE 2: STAFFING INCREASE FOR HOUSING ELEMENT PROGRAM

The Governor's budget proposes 649,000 to fund five two-year limited term positions from the Air Pollution Control Fund. The funding will be used to implement HCD's role in SB 375 (Steinberg, 2008) to review and approve housing elements included in regional transportation plans (RTPs).

BACKGROUND

AB 32 (Nunez, Chapter 488, Statutes of 2006), the Global Warming Act of 2006 requires the Air Resources Board (ARB) to establish a statewide greenhouse gas (GHG) emissions targets to 1990 levels by 2020. Additionally, SB 375 (Steinberg, Chapter 728, Statutes of 2008), required cities and counties to revise their housing elements every eight years in conjunction with the region's RTP. The housing element is the local government's plan for implementing housing development patterns included in a sustainable communities strategy (SCS) and RTP. The goal of the SCS/RTP is to lower vehicle miles traveled and reduce GHG emissions in order to achieve the goals outlined in AB 32.

HCD proposes to increase housing element staff to handle the compressed schedule of housing element submittals caused directly by the alignment of the housing and transportation planning mandated by SB 375. Under the current review model, HCD estimates that the workload will balloon over the next several years, requiring 17 positions to address the workload.

HCD anticipates a staffing level of 12 positions to address the workload, of which seven will be funded from housing sources and five from AB 32 implementation fees. The additional workload will be addressed by streamlining the review process. Historically, the Housing Element law work has been funded from the General Fund. In the 2011-12 Budget Act all the General Fund for these functions was eliminated. The 2012-13 Budget approved five positions and \$575,000 funded by HCD bond program.

STAFF COMMENTS

The dynamic of housing and transportation planning was changed by the passage of SB 375. Whereas in the past, the two processes had been independent of each other, SB 375 aligned both under the overarching goals included in AB 32 to reduce greenhouse gas emissions to 1990 levels by 2020.

ISSUE 3: HOUSING RELATED PARKS PROGRAM

The HCD requests a permanent baseline Budget Act Local Assistance appropriation of \$25 million for new awards pursuant to Proposition 1C Housing Related Parks Program (HRPP).

BACKGROUND

HRPP provides financial incentives to cities and counties for the approval and preservation of units affordable to very low and low-income households. Funds awarded under HRPP are used within local communities to create or rehabilitate park-related projects.

In 2010 and 2011, HCD was awarded about \$20 million in funds for HRPP. HCD anticipates an increase in the number of jurisdictions submitting applications in the next round for two reasons. The first has to do with the housing market continuing to recover and applicants becoming more familiar with the HRPP program.

The second has to do with the changes to the program enacted through AB 1672 (Torres). AB 1672 (Chapter 779, Statutes of 2012) expanded the HRPP eligibility to include units substantially rehabilitated, preserved, or acquired for low and very low income households. The changes enacted by AB 1672 should expedite the expenditure of fund and increase the number of eligible units.

The suspension of HCD's ability to make new awards during 2008-09 and 2009-10 due to the freeze on bond funds delayed the first HRPP awards. To date, HCD has about \$166 million available for awards. There was no appropriation of the HRPP fund in 2012-13.

STAFF COMMENTS

The subcommittee may wish to consider the following:

1. Why is HCD requesting a permanent baseline Budget Act appropriation of \$25 million at this time? Would it be better to provide funding for the first year and then evaluate whether or not the program is successful?
2. Additionally, the subcommittee may wish to consider if there are other uses for the HRPP program?