

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION****ASSEMBLYMEMBER TOM DALY, CHAIR****TUESDAY, MAY 21, 2013
1:30 P.M. - STATE CAPITOL ROOM 447**

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ITEMS FOR VOTE ONLY

8955 DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE 1: ADJUSTMENT TO FEDERAL PER DIEM FOR VETERANS HOMES

The Governor’s May Revise includes a request to decrease the General Fund contribution to the California Department of Veterans Affairs and increase the Federal Fund expenditure authority by \$625,000.

BACKGROUND

The federal government pays a per diem rate for every resident that is housed in the state’s veterans homes. The per diem rate recently has been increased. This \$625,000 augmentation in federal funding is the net change to federal reimbursements resulting from a decrease in the projected number of residents housed in the state’s veterans homes in fiscal year 2013-14 and the per diem increase.

Staff Recommendation: Approve the May Revise request.

VOTE-ONLY ISSUE 2: VETERANS HOMES CURRENT YEAR AND BUDGET YEAR SAVINGS

The Governor's May Revise requests a reduction of \$12 million General Fund in 2012-13 and \$5.5 million in 2013-14 to reflect savings at the veterans homes in West Los Angeles, Redding and Fresno.

BACKGROUND

Savings at the West Los Angeles home are due to a delay in opening a skilled nursing facility unit because of a licensing issue. The home was scheduled to begin admitting residents in February 2012, but was delayed until Fall 2012 due to a licensing issue related to food service that is now being addressed. The slower-than-expected admittance schedule led to General Fund savings. Savings related to this are \$11.2 million in 2012-13 and \$5.4 million in 2013-14. Additionally, hiring schedules at the new Redding and Fresno facilities have changed slightly, leading to small General Fund savings. These savings are \$506,000 in 2012-13 at the Redding home and \$510,000 at the Fresno home.

STAFF COMMENTS

These savings are attributed to slight delays in hiring and admitting residents at three homes, and staff has no concern with this issue. Furthermore, these savings within the General Fund budget of the department can be used to help support the Assembly's efforts to improve veterans' access to federal benefits and generate revenue from Rector Reservoir, issues that will be acted upon later in this agenda.

Staff Recommendation: Approve the May Revise request.

VOTE-ONLY ISSUE 3: CONVERSION OF SKILLED NURSING FACILITY UNITS TO DOMICILIARY UNITS AT WEST LOS ANGELES VETERANS HOME

The Governor's May Revise includes a request for a reduction of 35.6 positions and \$3.2 million General Fund in 2013-14. The reduction and savings will occur due to a conversion of two units at the West Los Angeles veterans home from skilled nursing facility units to domiciliary units, which are less staff-intensive and costly to operate.

BACKGROUND

The West Los Angeles facility was originally designed to provide 396 beds consisting of 84 residential care facility for the elderly and 313 skilled nursing facility level of care beds. This proposal will reduce the number of skilled nursing facility level of care beds, leaving a total of 228. Instead, the home will include 84 domiciliary beds, which are the least costly to operate.

Currently, there are no domiciliary level of care beds available for the estimated 676,219 veterans in any of the greater Los Angeles area veterans homes. This proposal will also provide the estimated 9,419 homeless veterans in the region with some form of either long-term care or supportive housing.

The department reports that it has communicated this change with the U.S. Department of Veterans Affairs and expects no issues in receiving federal per diem funding.

STAFF COMMENTS

This proposal will lower the cost of operating this home while meeting the needs of the region by increasing the number of beds available to the large homeless veteran population in Los Angeles.

Staff Recommendation: Approve the May Revise request.

VOTE-ONLY ISSUE 4: RECTOR RESERVOIR

The Subcommittee can consider adopting language that would allow the department to pursue options to increase revenue from Rector Reservoir.

BACKGROUND

At its April 16, 2013 hearing, the Subcommittee directed the department to develop by the May Revise a plan for Rector Reservoir. The department currently owns the reservoir and water rights at the reservoir, which is adjacent to the Yountville Veterans Home in Napa County. The Assembly has long urged the department to ensure it was generating as much revenue as possible from this resource. Based in part on a report conducted by the Department of Water Resources (DWR), the department provided to the Subcommittee a list of actions it intends to pursue:

- Ensure that all relative costs associated with the existing treatment of Rector Reservoir water have been captured and incorporated into the current water rates to ensure charges to current customers under the existing water permit are accurate.
- Review the existing water transfer permit to reconcile or resolve current water rights and water distribution priorities with Department of Fish and Wild Life.
- Pursue an agreement with a technical water expert to assist the department with the implementation of the DWR report recommendations that will include:
 - Review and update existing Rector water right licensee reports with the California State Water Resources Board;
 - Assist with the implementation of selected recommendations within the DWR report that suggest the installation of flow gages and relative equipment designed to improve accuracy with identified stake holders. Resolve or reach agreement with those stakeholders of water estimates and computed spillway flows;
 - Discuss the current water delivery and stream release assumptions as well as priorities for those water delivery release assumptions.
 - Develop a water marketing program for Rector Reservoir water rights within the existing place of use. This marketing program will address any potential “extra” water under the existing water agreement.

STAFF COMMENTS

After years of inaction, the department appears to be poised to generate more revenue from Rector Reservoir, which could help offset the department's General Fund costs. The Subcommittee may wish to consider increasing the General Fund appropriation for the department by \$50,000 to allow it to contract with a water expert who can assist them in selling excess water. The Subcommittee also may wish to consider adopting placeholder trailer bill language that would:

1. Give Cal Vet greater discretion to manage the state's water rights at Rector, including authorizing petitions to transfer water to non-state parties, reduce or eliminate any claims to Rector water from Napa State Hospital, and negotiate with the Department of Fish and Game on fishery needs;
2. Allow Cal Vet to create a water transfer program and set deadlines for offering water for sale on a 1-year transfer basis by June 30, 2014, including authorization to seek expedited SWRCB approval of the transfer under existing law;
3. Require Cal Vet to provide a report to the Legislature by April 1, 2014 that describes progress on this issue.

Staff Recommendation: Approve a \$50,000 appropriation to the Department of Veterans Affairs to hire a technical water expert to work on the Rector Reservoir issue. In addition, adopt placeholder trailer bill language as described above, that would allow Cal Vet to manage its water rights at Rector Reservoir, engage in water sales, and report back to the Legislature.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

VOTE-ONLY ISSUE 5: UNEMPLOYMENT INSURANCE INTEREST PAYMENT

The May Revision proposes a reduction of \$29.7 million General Fund from the January Budget proposal to pay the interest on the federal loan to the Unemployment Insurance (UI) fund.

BACKGROUND

The Subcommittee heard this issue on March 12, 2013, but held it open pending the May Revise. The state faces a \$10.2-billion dollar debt to the federal government, due to borrowing that has occurred to pay unemployment claims during the recession. The Governor's 2013-14 proposal would use General Fund to pay interest owed on the debt. In January, the Governor proposed appropriating \$291.2 million to make an interest payment that is due in September 2013. Due to a change in the federal interest rate related to the loan, the amount due in September is now estimated to be \$261.5 million.

STAFF COMMENTS

Staff has no concern with the revised interest payment. It should be noted that the Administration, as discussed in the March hearing, has convened a stakeholder group involving employers and labor to create a solution to the UI Fund's insolvency and to stabilize funding for the future. The Administration has reported to the Subcommittee that the group is still working on a proposed solution.

Staff Recommendation: Approve the May Revise request.

VOTE-ONLY ISSUE 6: MAY REVISION UPDATES: UNEMPLOYMENT INSURANCE, DISABILITY INSURANCE, AND SCHOOL EMPLOYEE FUND ADJUSTMENTS

The Governor's May Revise requests modifications to benefits and program funding based on updated estimates.

BACKGROUND

Every May, the Administration provides a revised budget request to adjust funding for the new estimates of claims and payments for the Unemployment Insurance (UI) Program, the Disability Insurance (DI) Program, and the School Employees Fund. The following changes are requested:

- Unemployment Insurance Benefits. A decrease of \$72 million for Unemployment Insurance Benefits, due to an improving unemployment rate and the expected discontinuation of the federal benefits extension program in December 2013. In addition, the Administration requests that benefit authority be decreased by \$351.1 million in the current year.
- Disability Insurance Program. An increase of \$153.1 million in the budget year to reflect an increase in DI payments, due to higher anticipated average weekly benefit payments. DI benefit authority also would be increased by \$181.2 million in the current year. In addition, the Administration requests a decrease of \$3.8 million and 42.5 temporary positions in the budget year and a decrease of \$2.3 million and 22.9 temporary help positions in the current year due to updated workload estimates.
- School Employees Fund (SEF). A decrease of \$4 million for benefit payments for the School Employees Fund. Additionally for the budget year, and a decrease of \$33.4 million in the current year due to improvements in the economy and reduced contributions paid to the program by schools and community college districts.

Staff Recommendation: Approve the May Revise adjustments.

VOTE-ONLY ISSUE 7: UNEMPLOYMENT INSURANCE PROGRAM ADMINISTRATION FUNDING

The Governor's May Revise requests a one-time increase of \$29.7 million from the Employment Development Department (EDD) Contingent Fund to allow the retention of 297 positions in the Unemployment Insurance (UI) Program that otherwise would be lost due to inadequate federal funding.

BACKGROUND

The U.S. Department of Labor funds the state's costs related to UI Program administration, which includes processing UI claims, answering phone calls and collecting payroll taxes from employers. As discussed in the Subcommittee's March 12, 2013 hearing, EDD officials note that federal funding to administer the UI program has fluctuated dramatically in recent years, and funding levels have not matched the state's funding request in more than a decade. The amount of funding states receive to administer the program is based on a formula tied to unemployment levels and other data, but in practice there are not sufficient funds available to provide states with the funding levels that the formula would dictate. Thus, EDD has received about 20 percent less funding than it should have to administer the UI program during the past 7 years. EDD officials state that their projected funding need is \$628.7 million in 2013-14, but projected federal funding will be \$457.6 million – a \$171.1 million gap.

Federal sequestration will further exacerbate this problem. EDD states that in addition to the annual underfunding issue, sequestration may cut another \$31.2 million from projected federal funding for this program. In all, the department could expect to lose more than 1,100 positions in 2013-14.

The EDD Contingent Fund is supported by penalty and interest payments from employers who have not been compliant in paying employment taxes. EDD has traditionally used this fund to support other department programs, and then transferred remaining money to the General Fund. The January Budget projected the transfer of \$29.8 million to the General Fund for 2013-14.

Instead, the administration proposes in the May Revise to use \$29.7 million from this fund to support 297 positions that otherwise would be lost.

STAFF COMMENTS

EDD is the frequent target of complaints from citizens seeking answers to questions about unemployment insurance. Further loss of federal funding could make this problem worse.

As discussed in the March hearing, the department is pursuing information technology projects to increase efficiencies in the administration of the program. Additionally, EDD notes that will undergo a zero-based budget analysis for the 2014-15 budget to attempt to identify other efficiencies.

Staff Recommendation: Approve the May Revise proposal.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS**VOTE-ONLY ISSUE 8: CAL/OSHA – PROCESS SAFETY MANAGEMENT UNIT**

The Subcommittee may consider conforming to a Senate action to increase funding for the Process Safety Management Unit within Cal/OSHA and directing the Department of Industrial Relations to use its statutory authority to fund no less than 15 additional positions for the unit, which inspects the state's 15 oil refineries and 1,680 chemical plants.

BACKGROUND

The Subcommittee heard testimony at its April 16, 2013 hearing regarding Cal/OSHA's Process Safety Management (PSM) unit, which enforces "process safety management" procedures regarding potentially hazardous processes that exist in a wide variety of industries, including oil refineries. These responsibilities, and the responsibilities of employers in these industries, are described in Labor Code Sections 7850 – 7870.

As discussed in April, a fire broke out at Chevron Richmond refinery in August 2012 when a severely corroded pipe in the refinery's #4 Crude Unit began leaking. Chevron managers did not shut down the unit but instructed workers to remove insulation, which led to the pipe's rupture and a massive fire. While there were no serious worker injuries, a reported 15,000 residents of surrounding communities sought treatment after breathing emissions from the fire.

Cal/OSHA immediately began an investigation into the fire and the leak repair procedures. In findings released in January 2013, Cal/OSHA found that Chevron did not follow the recommendations, dating back to 2002, of its own inspectors and metallurgical scientists to replace the corroded pipe that ultimately ruptured and caused the fire. Chevron also did not follow its own emergency shutdown procedures when the leak was identified, and did not protect its employees and employees of Brand Scaffolding who were working at the leak site. Also in January 2013, Cal/OSHA issued close to \$1 million in fines against Chevron, the biggest penalty in the department's history and the maximum allowable under current law, for failing to replace the corroded pipe, not implementing its own emergency procedures, and violating leak-repair procedures. Cal/OSHA issued 25 citations against Chevron, 23 of which were classified as "serious" due to the realistic possibility of worker injuries and deaths in the fire. Eleven of these serious violations were also classified as "willful" because Cal/OSHA found Chevron did not take reasonable actions to eliminate refinery conditions that it knew posed hazards to employees, and because it intentionally and knowingly failed to comply with state safety standards.

The U.S. Chemical Safety Board is an independent federal agency charged with investigating industrial chemical accidents. Testimony from board officials at a recent public forum in Richmond regarding the fire noted that "the California process safety regulatory system lacked sufficient well-trained, technically competent staff" and that Cal/OSHA's inspections of the Chevron Richmond refinery prior to the fire were minimal.

The U.S. Chemical Safety Board recommends that states utilize "an independent, well-funded, technically competent regulator that frequently audits major hazard facilities."

The PSM Unit currently has seven field inspectors and one manager to inspect 15 oil refineries in the state and thousands of chemical plants

STAFF COMMENTS

State Senate Budget Subcommittee No. 5 at its March 7, 2013 hearing voted to redirect \$350,000 and four positions currently associated with the high hazard assessment program to the PSM Unit. These positions are available to be moved due to earlier Subcommittee actions to adopt the Governor's proposal to eliminate the high hazard assessment fee.

The Subcommittee should consider conforming to the Senate actions, but also questioning whether that action is sufficient. The U.S. Chemical Safety Board has noted that a standard process for inspecting refineries would be 1,100 hours annually. California currently has only enough inspectors to conduct 100 hours of inspections annually. The average state employee works 1,824 hours per year. Based on the number of recommended refinery inspection hours, nine inspectors would be required to provide adequate inspections for the state's refineries. In addition, office staff and a manager may be needed, as well as additional inspectors to work with the state's 1,680 chemical plants.

Labor Code Section 7870 states that the department "may fix and collect reasonable fees for consultation, inspection, adoption of standards, and other duties" in relation to process safety management at these hazardous sites. The department currently does not collect such a fee.

Based on the U.S. Chemical Safety Board report stemming from the Chevron refinery fire, it appears that the department currently does not have enough personnel to ensure worker and citizen safety within these industries. The Subcommittee may wish to consider adopting trailer bill language requiring the department to implement a fee by March 31, 2014 to support these activities. It appears that 15 additional staff may be the minimum amount needed to handle all of the required duties.

Staff Recommendation: Conform to the Senate action regarding PSM Unit personnel and direct the Department of Industrial Relations to use its existing statutory authority to implement a fee that will support at least 15 new staff to perform process safety management throughout the state.

8860 DEPARTMENT OF FINANCE

VOTE-ONLY ISSUE 9: DIRECT TRANSFER AUTHORITY FOR AUDIT COSTS

The Subcommittee will consider a Governor's Budget Trailer Bill provision which allows DOF to directly charge for auditing services without an interagency agreement.

BACKGROUND

The Governor's Budget proposes trailer bill language that would facilitate and expedite the ability of DOF's Office of State Audits and Evaluations (OSEA) to carry out financial, performance and compliance audits and evaluations, as well as special products. The proposed trailer bill would eliminate the requirement that DOF execute an interagency agreement for each project approved by the Department of General Services (DGS), and instead allow for so-called direct transfer authority to DOF.

OSEA conducts numerous important audits and studies throughout the years. Some of the more recent ones have involved former redevelopment agencies and their successor agencies, the Department of Parks and Recreation, the California Public Utilities Commission, Cal Fire, and various special funds. The activities are reimbursable, as required under statute, and OSEA charges the agencies and departments for direct and indirect costs of the services provided. Currently, the interagency agreement must be completed before OSEA begins work, which can add to delays in starting the project.

STAFF COMMENTS

DOF notes that the process for entering into an interagency agreement can be lengthy—sometimes several weeks or months can elapse before one is in place. Collecting amounts owed following the activity is also cumbersome and administratively burdensome. Under the proposed language, OSEA would still agree on a scope of work with the agency or department and DOF indicates that it would work with legislative staff in scoping audits requested by the Legislature. OSEA has been called upon with increasing frequency in recent years, often for studies that need to be completed quickly.

Vote-Only Action: Adopt Trailer Bill Language

0845 DEPARTMENT OF INSURANCE

VOTE-ONLY ISSUE 10: HEALTH INSURANCE RATE FILINGS

The Subcommittee proposes rescinding prior action to conform to Senate action taken related to the implementation of SB 1163.

BACKGROUND

The Governor's Budget proposed a special fund expenditure authority increase of \$1.2 million (Insurance Fund) in Fiscal Year 2013-14, and ongoing, and to convert nine limited-term positions to permanent to address workload associated with health insurance rate filings. The Subcommittee approved this request on April 2nd.

Upon further review of available federal moneys it was found that the Insurance Fund could be reduced by \$576,000, and the Federal Trust Fund increased by \$136,000 in Fiscal-Year 2013-14.

On May 9th, the Senate Budget and Fiscal Review Subcommittee voted to augment Federal Trust Fund Authority by an additional \$136,000 in Fiscal Year 2013-14, and to decrease Insurance Fund expenditure authority by \$576,000 in Fiscal Year 2013-14.

STAFF COMMENTS

Staff recommends conforming to Senate action.

Staff Recommendation: Conform to Senate Action.

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 11: PROPEL BIOFUELS PROGRAM

The May Revision requests an extension of the liquidation period for grant funds to construct alternative fuel stations at public fueling stations.

BACKGROUND

Executive Order B-18-12 orders that State agencies, departments, and other entities take actions to reduce greenhouse gas emissions by at least 10% by 2015, and 20% by 2020 as compared to a 2010 baseline. DGS has contracted with Propel Biofuels to design and construct alternative E-85 and biodiesel fueling stations.

The Propel Biofuel Public Fueling Stations Project consists of constructing 75 fueling stations for dispensing E-85 ethanol gasoline and bio-diesel at public fueling stations. Thus far, there are 27 fueling stations in operation and several more currently being built. Station development is ongoing and scheduled to be completed by June 14, 2014.

This proposal requests a one year extension of the liquidation period for reimbursement authority related to the program. An extension through June 30, 2014 will allow liquidation of the remaining encumbrance. Approval of this request will allow DGS to continue to honor their previously agreed upon contractual obligations.

STAFF COMMENTS/QUESTIONS

This request is critical to achieve State mandated goals and policies related to carbon emission reduction levels.

Staff Recommendation: Approve May Revision Request.

VOTE-ONLY ISSUE 12: HIGH SPEED RAIL AUTHORITY

The Administration issued a Spring Finance Letter requesting a reduction of the Governor's January Budget proposal, due to changes of what services will be provided to the High Speed Rail Authority (HSRA).

BACKGROUND

The Administration requests a decrease of \$220,000 and 2.5 positions to more accurately reflect the workload associated with the HSRA. Some services requested in the Governor's January Budget proposal are no longer planned to be provided to the HSRA.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with this proposal.

Staff Recommendation: Approve Spring Finance Letter.

VOTE-ONLY ISSUE 13: GOLDEN STATE FINANCIAL MARKETPLACE PROGRAM (GS \$MART)

The May Revision requests the addition of trailer bill language to further establish the Golden State Financial Marketplace Program, known as GS \$Mart.

BACKGROUND

The GS \$Mart program is a governmental e-commerce financing program allowing all State entities and local government (including city, county, school districts, fire districts, and the State university system) to facilitate the financing of State and local installment or lease purchases. GS \$Mart meets all requirements of a competitive bidding process, but cuts time by providing online services and saves money by way of tax-exempt rates.

The Trailer Bill Language proposed in the May Revision is intended to strengthen the GS \$Mart program by clarifying its use and structure, along with ensuring the state's credit rating is protected by authorizing the DGS to make contractual lease payments on behalf of participating state agencies. There is no cost or savings associated with the Trailer Bill Language.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with the May Revision proposal.

Staff Recommendation: Adopt Placeholder Trailer Bill Language.

1111 DEPARTMENT OF CONSUMER AFFAIRS

VOTE-ONLY ISSUE 14: CALIFORNIA STATE ATHLETIC COMMISSION

The May Revision proposes to add Budget Bill Language to ensure that sufficient funding and training will be made available for Athletic Inspectors.

BACKGROUND

The California State Athletic Commission is requesting Budget Bill Language that would allow an increase of up to \$200,000 for the commission to adequately staff events and provide statutorily required inspector training. This increase would require approval from the Department of Finance along with a 30-day Legislative notification. The Budget Bill Language specifies that fund augmentation shall only be provided for additional funding needed for Athletic Inspectors at sporting events or for Athletic Inspector training.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt Budget Bill Language.

VOTE-ONLY ISSUE 15: CONTROLLED SUBSTANCE UTILIZATION AND REVIEW SYSTEM (CURES)

The Subcommittee may wish to consider increasing expenditure authority by \$3.941 million for ten boards and adopting Budget Bill Language within the Department of Consumer Affairs for FY 2013-14 and 2014-15. The funds are to be used throughout the two-year implementation of the CURES system.

BACKGROUND

The Controlled Substance Utilization and Review System (CURES), is an electronic database of prescription drugs issued by doctors. In 1996, the Legislature initiated the development of the CURES system in an attempt to identify solutions addressed while utilizing an antiquated system of triplicate copying.

The implementation of CURES represented a significant improvement over the state's prior utilization of a triplicate copying system, however, it did not address the need for providing healthcare practitioners and pharmacists with access to timely information to proactively diminish and deter the use of controlled substances. To address this issue with CURES the DOJ initiated the Prescription Drug Monitoring Program (PDMP), which allows prescribers and dispensers to access data at the point of care. The PDMP system is utilized by the DOJ to collect and store data on the prescription of controlled substances (Schedule II through Schedule IV). State law mandates that the DOJ assist law enforcement and regulatory agencies with the diversion and resultant abuse of controlled substances.

The California Budget Act of 2011 eliminated all General Fund support of CURES/PDMP, which included funding for system support, staff support and related operating expenses. To perform the minimum critical functions and to avoid shutting down the program, the DOJ opted to assign five staff to perform temporary dual job assignments on a part-time basis. Currently, there are five healing arts boards within the Department of Consumer Affairs that provide the Department of Justice funding to manage the CURES program. Funding to support the program is derived from fees assessed on the boards which support the operation and maintenance costs of the CURES program, which is maintained at the DOJ.

STAFF COMMENTS/QUESTIONS

The current CURES database is significantly underutilized. The DOJ estimates that only 3.6% of licensed prescribers are utilizing the system in the state. However, it is worth noting that the DOJ does not believe that the current software platform could accommodate the additional 236,000 registrants that are in the state. The Department of Justice is redirecting resources to support the operation of CURES/PDMP. The redirection is not sustainable for the long term.

According to the DOJ, modernization costs will be approximately \$2.1 million for an upgraded CURES database. The modernization would occur over a two-year period and the costs associated with maintaining the current system while the modernization occurs would be \$1.8 million. Total modernization costs would be approximately \$3.9 million.

To address the build out of a new system, it may be worth considering splitting the estimated \$3.9 million cost to build the new CURES database among the following boards that currently either prescribe or dispense controlled substances: The Medical Board, the Pharmacy Board, the Dental Board, the Board of Registered Nursing, the Osteopathic Medical Board, the Veterinary Medical Board, the Physician Assistance Board, the Optometry Board, the Podiatric Board, and the Naturopathic Board. The \$3.9 million would be split over the lifecycle of the development of the new database, which is currently estimated at two years. The contribution from each board would be determined by the number of schedule II through IV licensees within each respective board.

Staff recommends directing the Department of Finance to coordinate with the Department of Consumer Affairs to identify appropriate amounts for each respective board that either dispenses or prescribes controlled substances. The identified amounts should total approximately \$3.35 million for fiscal years 2013-14 and 2014-15. The \$3.35 million dollar figure takes into account the annual contribution of \$296,000 provided to the DOJ to manage the CURES database from the Medical Board, Dental Board, Board of Pharmacy, Board of Registered Nursing, and the Osteopathic Board. The increased expenditure authority will support the development of an updated CURES database. Senate Budget Subcommittee No. 5 will recommend an increase reimbursement authority for the DOJ so the funds can be distributed towards the modernization of the CURES database.

To ensure a higher level of participation by the end-user, which is comprised of the ten boards contributing to the development of a new CURES database, staff recommends including budget bill language that generates participation from the Department of Consumer Affairs during the development phase of the new CURES database. The proposed budget bill language is below:

1110-001-Each of the 10 Boards that will pay for CURES:

Provisions:

1. It is the intent of the Legislature that the Controlled Substance Utilization Review and Evaluation System be jointly developed and administered by the Department of Justice and the Department of Consumer Affairs and address the respective needs of the Boards funding the system.

2. Notwithstanding any other provision of law, of the funds appropriated in this item, \$XXX,XXX shall only be used to reimburse the Department of Justice for the cost of maintaining and upgrading the Controlled Substance Utilization Review and Evaluation System and is available for encumbrance until June 30, 2015. Reimbursement of expenditures shall be provided to the Department of Justice upon completion of the following:

- (a) *Department of Technology approval of a mutually-agreed upon Feasibility Study Report by both the Department of Justice and the Department of Consumer Affairs.*
- (b) *An interagency agreement between the Department of Justice and the Department of Consumer Affairs on behalf of the Board/Committee, that includes, but is not limited to, the roles and responsibilities of each department as to the joint development, implementation, utilization, and administration of the system.*

Staff Recommendation: Increase expenditure authority for the ten boards within the Department of Consumer Affairs to total \$3.941 million. This will take into account the current appropriation of \$296,000 annually provided by Department of Consumer Affairs Board for fiscal year's 2013-14 and 2014-15. The actual augmentation will amount to \$3.35 million over two budget years. Adopt proposed budget bill language.

VOTE-ONLY ISSUE 16: VETERINARY MEDICAL BOARD

The Subcommittee may wish to consider increasing the Veterinary Medical Board's expenditure authority along with authorizing new staff to address both ongoing workloads and accumulated backlogs.

BACKGROUND

Created in 1893, the Veterinary Medical Board (Board) licenses and regulates veterinarians, registered veterinary technicians (RVTs), RVT schools/programs and veterinary premises/hospitals through the enforcement of the California Veterinary Medicine Practice Act.

The Board protects the public from the incompetent, unprofessional, and unlicensed practice of veterinary medicine. The Board requires adherence to strict licensure requirements for California veterinarians and RVTs. The pet-owning public expects that the providers of their pet's health care are well-trained and are competent to provide these services. The Board assures the public that veterinarians and RVTs possess the level of competence required to perform these services by developing and enforcing the standards for examinations, licensing, and hospital and school inspection.

The Board also conducts regular practice analyses to validate the licensing examinations for both veterinarians and RVTs. Additional eligibility pathways have also been approved for licensure of internationally trained veterinary graduates and certification of RVTs to allow qualified applicants from other states in the U.S. and countries around the world to come to California and to improve the provision of veterinary health care for consumers and their animals. The Board also states that its mission is to protect consumers and animals through the development and maintenance of professional standards; the licensing of veterinarians and registered veterinary technicians, and through diligent enforcement of the California Veterinary Medicine Practice Act.

STAFF COMMENTS/QUESTIONS

Over the past several years, the Board's workload has increased. This workload increase has led to a significant backlog in the intake cycle time, time required for cases requiring formal discipline, and the average number of days from receipt of a complaint to the closure of an investigation. However, there has only been a minimal increase in staffing at the Board over that same period of time. A lack of additional resources has led to a significant backlog at the Board. The number of licensed veterinarians has increased twelve percent and the number of registered veterinary technicians has increased twenty-five percent and there has been a 43 percent increase in the number of general complaints received by the Board.

To address both the ongoing workload and the current backlog staff recommends increasing the expenditure authority by \$359,000 and providing two, two-year limited-term and 3 permanent staff positions to the Board in order to address the backlog and the ongoing workload increase.

Staff Recommendation: Increase the Veterinary Medical Board expenditure authority by \$359,000 and authorize a total of five staff positions; two two-year limited-term and three permanent to the Veterinary Medical Board.

VOTE-ONLY ISSUE 17: BUREAU FOR PRIVATE POSTSECONDARY EDUCATION (BPPE)

The Administration issued a Spring Finance Letter requesting an \$853,000 increase for 8.0 3-year limited-term positions to reduce a backlog of institutional licensing applications that has accumulated within the BPPE. Trailer Bill Language is also proposed to allow currently exempt institutions to come under the purview of the BPPE. The Administration is also requesting Budget Bill Language extending the Bureau's fund reserve limit.

BACKGROUND

The number one priority for the BPPE is protecting students by way of increasing accountability for school performance. Private Postsecondary Educational institutions under the oversight of the BPPE are subject to various State regulations, and have a formal process for filing and seeking redress for complaints filed by students.

Currently, some Private Postsecondary Educational institutions are exempt from the BPPE's oversight. The Federal Department of Education announced that all Private Postsecondary educational institutions must be subject to State regulations by July 1, 2013 in order for their students to continue receiving Federal Pell Grants. However, this date has now been extended until July 1, 2014 since various states felt they needed more time to adequately comply with State authorization requirements.

Proposed Trailer Bill Language would allow currently exempt institutions to become subject to the Bureau's regulations, and therefore allow them to participate in Federal student aid programs. This issue is not as urgent as it was previously because of the extension given by the Federal Department of Education, allowing institutions another year to comply with State regulations. This is just one way to address this policy change regarding exempt institutions, and could be revisited upon the sunset of the Bureau in January, 2015.

The following Trailer Bill Language would allow currently exempt Private Postsecondary educational institutions to relinquish their exempt status, and come under the purview of the BPPE:

Section 94874.8 is added to the Education Code to read:

94874.8 (a) An institution exempt from all, or part, of this chapter pursuant to sections 94874 (i), 94874 (j) or 94874.1 may apply for an approval to operate, but only subject to the following provisions:

(1) The bureau has the authority to approve such an exempt institution pursuant to Article 6 of this Chapter. The bureau also has the authority to regulate a previously exempt institution that is issued an approval to operate through the full set of powers granted, and duties imposed, by this chapter as they would apply to an institution that is not exempt.

(2) *Notwithstanding any other provision of law, a previously exempt institution that obtains an approval to operate is no longer exempt pursuant to sections 94874 (i), 94874 (j) or 94874.1. This section applies to any previously exempt institution that is issued an approval to operate on and after February 1, 2013.*

(3) *Upon issuance of an approval to operate, the institution shall be subject to all provisions of this chapter, and any regulations adopted pursuant to it, that apply to an institution that is not exempt.*

(4) (a) *With respect to the placement and salary or wage data required to be collected, calculated and reported by article 16 of this chapter, commencing with section 94928, a previously exempt institution need not report on its first School Performance Fact Sheet any data it was not required to collect and does not have available to it prior to issuance of the approval to operate. An institution shall, however, report available data collected and calculated in accordance with this chapter and applicable regulations, regardless of the purpose for which the data was collected. If the required data is unavailable, an institution shall also disclose the unavailability of such data on all documents required by this chapter and regulations adopted pursuant to it. A previously exempt institution that is issued an approval to operate on or after February 1, 2013 is required to collect and calculate all information necessary to comply with article 16 of this chapter, commencing with section 94928, once it receives approval to operate.*

(b) *School Performance Fact Sheets shall be provided to prospective students, filed with the Bureau and provided on the institution's Internet Website, no later than the first August 1st after the institution is approved to operate and every August 1st thereafter. School Performance Fact sheets shall report data for the previous two calendar years based upon the number of students who began the program or the number of graduates for each reported calendar year. If two calendar years have not passed since the issuance of the approval to operate by the August 1 deadline for the School Performance Fact Sheet, an institution shall report the required data for the reporting calendar year since issuance of the notice of approval.*

The following Budget Bill Language would extend the Bureau's fund reserve limit until the Bureau sunsets in January, 2015:

Add the following provision to Item 1111-002-0305

The Private Postsecondary Education Administration fund reserve limit of six months of operating expenses pursuant to Education Code section 94930 (b) shall be suspended until January 1, 2015.

As of January 1, 2013 the Bureau had a licensing application backlog of 948 applications. The \$853,000 would fund 5.0 Associate Governmental Program Analysts and 3.0 Education Specialist positions on a three-year limited-term basis to address this filing backlog along with the ongoing need for additional licensing staff.

STAFF COMMENTS/QUESTIONS

On May 9th, the Senate voted to approve the fund increase, adopt placeholder Trailer Bill Language, adopt Budget Bill Language, and require Supplemental Reporting Language to request annual status updates on the status of the backlog.

Staff Recommendation: Conform to Senate Action.

0855 CALIFORNIA GAMBLING CONTROL COMMISSION

VOTE-ONLY ISSUE 18: REMOTE CALLER BINGO PROGRAM

The May Revision requests \$2,000 and Trailer Bill Language related to the Remote Caller Bingo Program.

BACKGROUND

SB 1369 (Cedillo, Statutes of 2008) established the Remote Caller Bingo Act. This legislation authorized "remote caller bingo" (RCB) as a game that would allow specific nonprofit and charitable organizations to use audio and video technology to remotely link designated in-state facilities to cosponsor live bingo games, if authorized pursuant to a local bingo ordinance and approved by the Commission.

The May Revision requests \$2,000 from the California Bingo Fund in FY 2013-14 and ongoing, for the increased workload associated with the licensing of RCB vendors. Costs associated with the operation and regulation of RCB fall under the purview of the Department of Justice, pursuant the Governor's Reorganization Plan No. 2.

The May Revision also proposes Trailer Bill Language that will extend the repayment date of two loans from the Gambling Control Fund that were used to establish the RCB Program.

STAFF COMMENTS/QUESTIONS

Staff has no concerns with this proposal.

Staff Recommendation: Approve May Revision proposal and adopt Trailer Bill Language.

8820 COMMISSION ON THE STATUS OF WOMEN AND GIRLS

VOTE-ONLY ISSUE 19: SPECIAL FUND ESTABLISHMENT

The Governor's Budget proposes the creation of a special fund to house private donations to the Commission. The Subcommittee may also wish to consider a \$500,000 General Fund appropriation to the Commission for 2.1 personnel and operating expenses.

BACKGROUND

The Commission on the Status of Women and Girls has undergone major changes since the last Fiscal Year. The Commission has formed partnerships with the California Department of Veterans Affairs (CalVet), the California Research Bureau, and the California Department of Education. The Commission currently has three fundraising events planned and aims to serve as an educational touch-point that will provide the Legislature with information relevant to policies for California's women and girls, and conduct outreach.

The Governor's Budget proposes Trailer Bill Language and a \$1,000 General Fund appropriation to establish the Women and Girls Fund to house private donations and gifts to the Commission.

STAFF COMMENTS/QUESTIONS

In order for the Commission to adequately perform, the Subcommittee should appropriate \$500,000 General Fund for personnel and operating expenses. The California Commission on the Status of Women and Girls will expend all funds generated through donations prior to using any general fund dollars. When possible, donated funds will be used in lieu of State funds for any given activity of the Commission.

Staff Recommendation: Approve Trailer Bill Language and a \$500,000 General Fund increase.

3100 CALIFORNIA SCIENCE CENTER

VOTE-ONLY ISSUE 20: TRAILER BILL LANGUAGE: PROPERTY SALE AND USE

The Subcommittee may wish to consider adopting Trailer Bill Language relating to the sale, long term, or use of the California Science Center's property.

BACKGROUND

The California Science Center is the principal land owner in Exposition Park in Los Angeles. Since 1993, development of the Park has been guided by the California Science Center and the Exposition Park Master Plan, which was developed at the direction of the Legislature.

The Master Plan, which has been partially implemented, provides for much of the current asphalt parking in the park to be converted to much need park space in one of the most park deprived communities in the nation.

The LA Coliseum and Sports Arena are on Science Center land leased to the Coliseum Commission through 2054. In December 2010 Governor Schwarzenegger's budget proposed to monetize state assets by selling large portions of Exposition Park to USC. With significant legislative and community opposition, the sale did not proceed.

The Commission, which is in a significant fiscal crisis and has not paid its rent to the Science Center, in 2012 entered into a sublease agreement with USC to extend the term of the lease to 99 years that included a non-disturbance agreement, and a parking lot lease from state. Also in 2012, USC proposed to enter into a 99 year lease of large portions of Exposition Park including the parking lots planned to be converted to park space.

The Legislative Black Caucus objected to portions of the proposal that threatened the promise of parkland for urban Los Angeles and that could jeopardize the operation of the educational, cultural and recreational uses of Exposition Park.

The agreements between USC and the Science Center are still under consideration. Much progress has been made in discussions between the Legislative Black Caucus, Administration officials and USC. There is still concern within the legislature and the community that USC desires to acquire control of State land in Exposition Park.

The California Science Center, the California African American Museum, and the Los Angeles Natural History Museum are all housed within Exposition Park in Los Angeles. Admission to all three museums is free, and the State currently owns six parking lots within Exposition Park. The money generated from the parking lots currently funds maintenance of the Park, including the museums.

The proposed trailer bill language does not affect the Coliseum or Sports Arenas ability to sign the long-term leases that support its current use as well as any new uses associated with the Master Plan, but would require legislative approval of any long-term lease of parking or other park space in Exposition Park.

STAFF COMMENTS/QUESTIONS

Staff recommends adopting Trailer Bill Language that would require approval by the Legislature for any lease, sale, or use of the property within Exposition Park for ten years or more. This will ensure that there is adequate parking for the public to frequent the Science Center and other museums.

Staff recommends adopting the following Trailer Bill Language:

Add Section 4109 as follows

- (a) Notwithstanding any other provision of law, the California Science Center shall not enter into and the Director of General Services shall not approve any sale or long term lease or agreement for use of its real property with a term of more than 10 years, unless the Legislature has reviewed and approved the proposed lease as part of the annual budget process.
- (b) This section shall not apply to:
 - (i) the existing lease and agreements with Los Angeles Unified School District as provided for in Section 4101.2;
 - (ii) existing leases and operating agreements with the California Science Center Foundation for the IMAX Theater and for Phase 2 of the California Science Center Master Plan as provided for in Section 4101.3; and necessary leases and agreements for development and construction of Phase 3 of the California Science Center Master Plan including the Air and Space Center as provided for in Section 4103;
 - (iii) the Los Angeles Memorial Coliseum Commission as provided for in Section 4102 or with the University of Southern California for the Coliseum and/or Sports Arena property currently leased to the Coliseum Commission provided there is no change in use of the Sports Arena other than the options outlined in the EIR completed in 2011; and
 - (iv) the existing Operating Agreement for use of playfields with the City of Los Angeles.
- (c) None of the exceptions in section (b) shall authorize the lease of existing parking space or green space for a term in excess of 10 years, unless the Legislature has reviewed and approved the proposed lease.

Staff Recommendation: Adopt Trailer Bill Language.

0890 SECRETARY OF STATE

VOTE-ONLY ISSUE 21: CODE CLEANUP

The subcommittee may wish to consider adopting Trailer Bill Language related to Limited Liability Company cancellations.

BACKGROUND

In 2006, AB 2341 (Villines) set up a process for Limited Liability Companies (LLCs) to cancel their status as a LLC with the Secretary of State (SOS), and avoid penalty from either the SOS or the Franchise Tax Board. However, the legislation neglected to account for California LLCs whose cancellation was in progress before the bill was chaptered. As a result, those LLCs, which comprise up to 10,000 in total, have faced penalties and uncertainties that were never intended. A statutory change is necessary in order to let these LLCs cancel their status without paying undue taxation.

STAFF COMMENTS/QUESTIONS

The subcommittee may wish to consider adopting the following Trailer Bill Language to be added to the Corporations Code:

If a limited liability company filed a certificate of cancellation pursuant to Section 17356 or 17455 with the Secretary of State before September 29, 2006, and the Franchise Tax Board did not, as of that effective date, make the determination that all taxes and fees imposed on the limited liability company under the Revenue and Taxation Code were paid or secured, then the limited liability company shall be cancelled as of the date of filing the certificate of cancellation and, thereupon, the existence of the limited liability company in California shall cease.

Staff Recommendation: Adopt Trailer Bill Language.

9210 LOCAL GOVERNMENT FINANCING

VOTE-ONLY ISSUE 22: AID TO LOCAL GOVERNMENTS

May Revision: The May Revision proposes an increase of \$74,000 to supplement insufficient Education Revenue Augmentation Funds (ERAF) to fund the counties of Amador, San Mateo, and Alpine for a total of \$1,874,000. Additionally, it includes language that states the exact amount allocated for each county.

BACKGROUND

At its March 19, 2013, hearing, the subcommittee discussed waiting for additional numbers pertaining to the Alpine County before taking action on this item.

In 2004, two policies shifted local property tax from schools to cities and counties, requiring the state to backfill schools for the property tax revenues.

- The first of these events was the "triple flip," related the state issuance of the ERBs. To pay debt service on the bonds and retain the overall sales tax rate, the local sales tax for cities and counties was reduced by ¼ cent and the State sales tax was increased by ¼ cent to repay the ERBs. To hold cities and counties harmless, property tax was redirected from schools to cities and counties. The ¼ cent rate is to be restored when the ERBs are repaid. It is anticipated that the ERBs will be repaid by 2016.
- The second event was the enactment of the "swap" which provided local property taxes to cities and counties instead of a state backfill to make up for the VLF reductions in 2004. The goal was to provide a more reliable funding mechanism to backfill cities and counties for the local revenue cut by the State when the VLF tax on motor vehicles was reduced from 2.0 percent to 0.65 percent.

As a result, cities and counties receive increased property taxes from two sources: first, the countywide property tax ERAF and, second (if ERAF resources are not sufficient), base K-14 district property tax revenues. State law specifies, however, that "basic aid" K-14 district property tax revenues are not available for allocation to cities and counties for this purpose.

In Alpine, Amador, and San Mateo Counties, the cost of offsetting the triple flip and VLF swap exceeded the funds in their ERAFs. Since current law does not allow additional property tax shifts to make these counties whole, the estimated loss for the three counties is \$1,874,000.

STAFF COMMENTS

Staff has no comments on this proposal.

Staff Recommendation: Approve May Revision proposal.

8885 COMMISSION ON STATE MANDATES

VOTE-ONLY ISSUE 23: GOVERNOR'S PROPOSAL TO SUSPEND MANDATES WITHOUT STATEWIDE COST ESTIMATES

The Governor's Budget proposes to suspend nine new mandates, four of which do not include statewide cost estimates.

BACKGROUND

Suspension of Four Mandates without Statewide Cost Estimates: The Governor's budget includes proposals to suspend four mandates determined by the Commission on State Mandates (COSM) to be reimbursable activities. However, the Commission has not adopted cost estimates for the suspension of these mandates.

Under the usual process, the Commission adopts statewide cost estimates before the state moves forward with suspending a mandate. This year the Governor's budget proposes suspending mandates before the statewide cost estimates are known. If these mandates are suspended, there will be no budgetary cost savings for 2013-14.

The four mandates proposed for suspension include the following:

- *California Public Records Act.* The main provisions of the California Public Records Act (CPRA) that provide the right of residents to inspect public records and receive copies of those documents are not reimbursable mandates. The portion of the law that is reimbursable pertains to assistance in seeking records, notification of the requestor as to whether or not records may be disclosed, and removing employee information from records that are disclosed. The LAO recommends recasting the provisions that are determined to be reimbursable as best practices.
- *Local Agency Ethics.* AB 1234 requires local governments to adopt written policies detailing the conditions under which elected officials are entitled to reimbursement for expenses and provides specified ethic training to elected officials who receive a salary or other form of compensation. Current state law makes it optional for most local governments to provide compensation or expense reimbursement to elected officials. However, state law makes payment of compensation or expense reimbursement for a small number of local governments that include general law counties and certain special districts. The suspension of this mandate would affect the general law counties and the special districts. Since there is no cost associated with the suspension of the mandate, it would seem that suspended the mandate would be premature. The LAO recommends eliminating all future costs related to this mandate by modifying state law to make payment of compensation or expense reimbursement optional for all local governments.

- *Tuberculosis Control.* Requires local detention facilities to submit a written treatment plan to relevant health officers for tuberculosis (TB) patients when they are released or transferred to another jurisdiction and requires local health officers (LHO) to review treatment plans from a health facility within 24 hours. The activities required by the TB control mandate likely reduce the spread of TB through a standardized application of a treatment plan. LAO's analysis states that it is premature to weigh the public health benefits of suspending the mandate before understanding the cost information.
- *Interagency Child Abuse and Neglect Investigation Reports.* Imposes requirements relating to child abuse investigations on local agencies including distributing Department of Justice's (DOJ) suspected child abuse form to mandated reporters, referring and cross-report child abuse and neglect matter to relevant agencies, and notifying suspected child abuser that they have been reported to the Child Abuse Central Index. According to the LAO the child abuse and neglect reporting required under the ICAN mandate represents, in most cases, a critical component of the state's child welfare system in that it affects how child abuse and neglect reports are received, how local governments share information about such reports, and the core functionality to identify suspected child abusers. This item was heard in Subcommittee No. 1 and they recommended the adoption of the LAO recommendation to (1) reject the Governor's proposal on this mandate, and (2) establish a workgroup to evaluate the ICAN mandate.

STAFF COMMENTS

In the past, mandates have been suspended only after a statewide cost estimate has been adopted by the Commission. The mandates listed above do not contain these costs. Without a statewide cost estimate, there are no budgetary savings in 2013-14 and therefore the question is raised as to whether or not these mandates are being suspended prematurely.

The Governor's budget proposes to alter the mandate process. But, mandate reform should be done in a comprehensive way, not piecemeal. The mandate process was last reformed in 2007 with AB 1222 (Laird, Chapter 329, Statutes of 2007). AB 1222 established a streamlined alternative state mandate reimbursement process, clarified an existing reimbursement methodology, and enhanced existing claiming requirements mandates. Although these changes were enacted in 2007, the impact of these changes are barely coming into play. Before we change the game, we should wait to gather information and understand how the 2007 reforms affect the process.

For the reasons mentioned above, staff recommends rejecting the four mandates listed in this section that do not contain statewide cost estimates. Additionally, the subcommittee should conform to the Subcommittee 1 action to reject the ICAN mandate and to establish a working group to evaluate the ICAN mandate.

Staff Recommendation: Reject the four mandates without cost estimates and conform to the Subcommittee 1 action to reject the ICAN mandate and establish a working group to evaluate the ICAN mandate.

2240 HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

VOTE-ONLY ISSUE 24: HOUSING RELATED PARKS PROGRAM

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

BACKGROUND

The Subcommittee heard this item at its April 9, 2013, meeting. 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. First, the housing market continues to recover and applicants are becoming more familiar with the HRPP program. Second, last year, changes enacted through AB 1672 (Torres), 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 \$160 million available for awards. There was no appropriation of the HRPP fund in 2012-13.

STAFF COMMENTS

Staff recommends approving the appropriation of \$25 million for FY 2013-14. However, staff also recommends removing the language that makes \$25 million a permanent baseline in the Budget Act. Staff would direct HCD to return next year with a BCP to request additional funding for transparency and legislative oversight of the program.

Staff Recommendation: Adopt the May Revision Proposal and remove the language that makes the \$25 million a permanent baseline in the Budget Act.

VOTE-ONLY ISSUE 25: EMERGENCY HOUSING ASSISTANCE PROGRAM

The Subcommittee may consider transferring \$1 million from the General Fund to the Emergency Housing and Assistance Fund for the purpose of coordinating and integrating the Emergency and Assistance Program (EHAP and EHAP-CD) funds with the federal Homeless Emergency Assistance and Rapid Transition to Housing Act (HEARTH Act) funds.

BACKGROUND

The EHAP Program consists of two parts the Emergency Housing and Assistance Program – Operating Facilities Grant (EHAP) and the Emergency Housing and Assistance Program – Capital Development (EHAP-CD). EHAP provides operating facility grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families. EHAP-CP provides capital funding for acquisition, new construction, and rehabilitation of emergency shelters, transitional housing, and safe havens for persons experiencing homelessness.

STAFF COMMENTS

This augmentation will increase the efficiency of taxpayer dollars by allowing the Department of Housing and Community Development to streamline the application process for funding.

Staff Recommendation: Transfer \$1 million from the General Fund to the Emergency Housing and Assistance Fund.

VOTE-ONLY ISSUE 26: PROPOSITION 1C INFILL AND TRANSIT ORIENTED DEVELOPMENT

The subcommittee may consider adopting placeholder trailer bill language to do the following:

- 1) extend the liquidation period for funds previously appropriated from the Regional, Planning, Housing and Infill Incentive Account and the Transit Oriented Implementation Fund and task the Department of Housing and Community Development to create criteria and a process;
- 2) require HCD to report to the budget committee regarding the criteria and process;
and
- 3) add a technical adjustment for disencumbered funds.

BACKGROUND

In 2006, voters approved Proposition 1C - The Housing and Emergency Shelter Trust Fund Act of 2006. The bond authorizes funding for various categories including a provision to deposit \$850 million in the Regional Planning, Housing, and Infill Incentive Account (IIG) for specified infill incentive grants and brownfield cleanup that promotes infill development. Proposition 1C also includes a provision to deposit \$300 million in the Transit-Oriented Development Account for expenditure on the state transit-oriented program (TOD). The Department of Housing and Community Development (HCD) administers both IIG and TOD programs.

Under IIG Program, HCD offers gap financing grants to cover the costs of infrastructure improvements necessary for the development of infill housing.

Under the TOD Program, HCD provides grants to cities, counties, cities and counties, or transit agencies for the provision of infrastructure necessary for the development of higher density uses within close proximity to a transit station or to facilitate connections between that development and the station.

The Legislature has appropriated all available Proposition 1C funds for the IIG and TOD Programs. HCD has made awards to various projects however, some projects have since become infeasible and the funding has been disencumbered.

Last year, the Legislature provided HCD authority to re-allocate any available disencumbered funds from the IIG Program during the 2012-13 and 2013-14 fiscal years. HCD also was provided authority to re-allocate any available disencumbered funds from the TOD Program during the 2012-13. Inadvertently the timeframe for TOD did not match the timeframe for IIG disencumbered funds. A technical adjustment is needed to provide for consistency in timeframes between the IIG and TOD.

STAFF COMMENT

While some IIG and TOD projects might not be able to move forward due to the impacts of the housing market and financial lending crisis or other challenges which could result in disencumbered funds, other IIG and TOD projects are meeting the required benchmarks by HCD. Projects meeting the benchmarks still face the potential obstacle of the current liquidation period in state law. The mixed picture of project readiness necessitates the development of a clear and deliberative set of standards by HCD on how to implement any liquidation provision provided by the Legislature. The intent to extend the liquidation provision is to assist projects that are progressing and should not be used to delay the transfer of funds to other shovel-ready projects.

Staff recommends adopting placeholder trailer bill language to extend the liquidation period for funds previously appropriated from the Regional, Planning, Housing and Infill Incentive Account and the Transit Oriented Implementation Fund and task the Department of Housing and Community Development to create criteria and a process, and require HCD to report to the budget committee regarding the criteria and process. Additionally, the staff recommends adopting trailer bill language for the technical adjustment to the disencumbered funds.

Staff Recommendation: Adopt staff recommendation.

0515 SECRETARY FOR BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY
0650 OFFICE OF PLANNING AND RESEARCH

VOTE-ONLY ISSUE 27: STRATEGIC GROWTH COUNCIL

The Subcommittee may consider adding the Secretary of the Business, Consumer Services and Housing Agency to the Strategic Growth Council (SGC) membership to ensure that the State's housing entities are represented on the SGC.

BACKGROUND

Effective July 1, 2013, the Governor's Reorganization Plan No. 2 (GRP 2) eliminates the Business, Transportation and Housing Agency (BT&H) and shifts certain departments and programs under its purview to two new agencies: the Transportation Agency and the Business, Consumer Services and Housing Agency. Under GRP 2, the Department of Housing and Community Development and the California Housing Finance Agency transferred to the new Business, Consumer Services and Housing Agency. The funding for the Office of Planning and Research, which funds the SGC is approved annually in the budget process.

SGC Membership: The SGC currently consists of the Director of State Planning and Research, the Secretary of the Resources Agency, the Secretary for Environmental Protection, the Secretary of Business, Transportation and Housing, the Secretary of California Health and Human Services, and one member of the public appointed by the Governor.

SGC's tasks include various activities, including but not limited to:

- Identifying and reviewing activities and funding programs of member state agencies that may be coordinated to increase the availability of affordable housing and improve transportation systems

STAFF COMMENTS

This proposal developed over conversations regarding housing proposals and needs. Staff recommends adding the Secretary of Business, Consumer Services and Housing Agency to the SGC membership.

Staff Recommendation: Increase the membership of the Strategic Growth Council by adding the Secretary of Business, Consumer Services and Housing Agency.

0860 BOARD OF EQUALIZATION

VOTE-ONLY ISSUE 28: CLARIFY SALES TAX ON SOFTWARE TRAILER BILL LANGUAGE

May Revision. The May Revision proposes trailer bill language to clarify that software delivered on media is tangible physical property subject to sales tax provisions.

BACKGROUND

Under current law, unless specified exempted, the sales of all tangible personal property are subject to the sales and use tax. The sales of services and intangibles are not subject to this tax. Software can be delivered to the end consumer in one of two ways: over the internet or on some form of media such as a tape, a disk, or a cartridge.

Sales of software or other products, such as music and books, that are delivered through the internet are exempt by regulation and are not subject to the sales and use tax. Sales of software delivered on media, however, are considered tangible personal property and, thus, are taxable.

Current law also states that for an otherwise taxable transaction, the value of any technology transfer agreement is not taxable. A technology transfer agreement (TTA) is an agreement under which, essentially, a right to a patent or copyright is transferred to the buyer in a transaction.

In *Nortel v. Board of Equalization*, the Appeals Court sided with the taxpayer's contention that some transactions constituted technology transfer agreements. Although the *Nortel* court did not hold that software is intangible, the decision in this case has been cited by some to argue that all software, even prepackaged software, is intangible, and thus not subject to tax.

Current statute does not contain an explicit statement that software delivered on media is tangible personal property. However, it is clear from statute that the taxation of prepackaged software was intended by the Legislature. Large retailers are currently and have been, for as long as there has been prepackaged software, collecting sales tax on pre-packaged software.

STAFF COMMENTS

This trailer bill clarifies current law, staff recommends approval of this language.

Staff Recommendation: Adopt May Revision Trailer Bill Language

VOTE-ONLY ISSUE 29: HAZARDOUS WASTE CONTROL ACCOUNT FEE REFORM

May Revision. This May Revision proposal requests an increase of reimbursements by \$1,303,000 and four positions to support increased collection workload from proposed reforms to the Department of Toxic Substances Control hazardous substances fee programs.

BACKGROUND

The Department of Toxic Substances Control (DTSC) proposes to modify the hazardous waste fee structure in the Hazardous Control Account (HWCA) to align the fees with public policy objectives, provide a long-term stable funding source for the DTSC's Hazardous Waste Management Program, and align the fees with program objectives. The proposed reforms will have a direct impact on BOE's workload.

The BOE administers six hazardous substance tax programs for DTSC. Funds are deposited into the HWCA and the Toxic Substance Control Account in the General Fund. The proposed HWCA Fee Reform will streamline the hazardous waste fee system, modify the fees to ensure the long-term stability of the HWCA, and align the fees with program objectives. The HWCA reforms will impact the BOE by eliminating the Disposal Fee and Activity Fee (estimated 130 accounts) currently administered by the BOE; revise the current tiered-rate Generator Fee to a per ton Generation and Handling Fee; and adds over 3,000 new accounts to BOE.

STAFF COMMENTS

Staff recommends approving the May Revision proposal of \$1,303,000 and the four positions but changing the positions to two-year limited term to provide transparency and legislative oversight to the BOE budget.

If the purpose of the HWCA Fee reform is to streamline the hazardous waste fee system then the need for staff to support the program over time for the project should decrease over time as these efficiencies are implemented.

Staff Recommendation: Adopt May Revision with two-year limited term positions.

VOTE-ONLY ISSUE 30: ADDITIONAL STAFF FOR ONLINE REGISTRATION SYSTEM

The Governor's budget includes the following budget change proposals for additional staff for BOE's online registration system.

BACKGROUND

The Subcommittee heard this item at March 19, 2013, meeting, and the item was held open pending additional information.

- **eReg.** The budget proposes additional resources to enhance the BOE's online registration system (eReg). Currently, the BOE's eReg system does not allow tax and fee payers to electronically update and maintain their account. The additional resources will allow taxpayers to register online and make account maintenance adjustments that currently are handled by BOE staff.

This proposal requests \$950,000 (\$650,000 GF and \$260,000 Reimbursements) and 4.0 positions in 2013-14, and \$808,000 (\$587,000 GF and \$221,000 Reimbursements) and 4.0 positions in 2014-15.

STAFF COMMENTS

The BOE should direct existing resources and staff to give priority to this project.

Staff Recommendation: Reject the Governor's proposal for additional resources for the eReg system.

VOTE-ONLY ISSUE 31: ADDITIONAL RESOURCES FOR BOE PROGRAMS

The Governor's budget includes two BCPs for additional staff for the BOE to support its programs.

BACKGROUND

The Subcommittee heard this item at March 19, 2013, meeting, where the item was held open pending additional information.

- **Fuel Tax Swap.** The Fuel Tax Swap (AB 6 X8 (Budget Committee), Chapter 11, Statutes of 2009-10 Eighth Extraordinary Session, and SB 70 (Budget and Fiscal Review Committee, Chapter 9, Statutes of 2010, reduced the state portion of sales and use tax applied to the Motor Vehicle Fuel, increased the MVF excise tax rate, and imposed a MVF floor stock tax on gasoline. In addition, the state portion of the sales and use tax on diesel fuel increased and the excise tax on diesel fuel decreased. Beginning July 1, 2012, the state's excise tax on diesel fuel was adjusted to offset the additional revenue generated by the increased sales tax rate imposed on diesel fuel. The law required that the diesel fuel rate be reviewed and adjusted yearly to maintain revenue neutrality.

This proposal requests \$342,000 from the Motor Vehicle Fuel Account in 2013-14.

- **Joint Operations Center.** The JOC project combines staff, data, and expertise from both federal and state governments to effectively identify fuel taxes under-reporting, non-reporting and trends leading to evasion. These pooled resources provide benefits to both state and federal fuel compliance efforts.

This proposal requests \$300,000 in Federal funds in 2013-14.

STAFF COMMENTS

Staff has no concerns with these proposals.

Staff Recommendation: Approve Governor's proposal to provide additional staff for the Fuel Tax Swap and the Joint Operations Center.

VOTE-ONLY ISSUE 32: PARCEL TAX COLLECTIONS

The subcommittee may consider providing \$250,000 in General Fund revenues for two positions to require the BOE budget to collect information on locally assessed parcel taxes and to include this information in the annual report to the Governor.

BACKGROUND

The BOE is required to annually report to the Governor the following information:

- The assessed value of state-assessed and locally assessed real and personal property in each county and the assessed value of state-assessed and locally assessed property in each incorporated city or town;
- Information concerning other taxes which it administers; and,
- Such information and suggestions as it shall deem proper.

The parcel tax was a product of the passage of Proposition 13 (1978) and later amended by Proposition 218 (1996). Prop. 13 provided local agencies the authority to levy property taxes on per parcel basis with a two-thirds voter approval. Parcel taxes have been used to fund school construction projects, fire protection and law enforcement services, and local government capital improvements.

There are many different types of parcel taxes with the most common being “fixed amount flat rate” and “fixed amount square-footage” parcel taxes. However statewide information on parcel taxes is difficult to obtain. Parcel taxes represent a significant and growing source of revenue for local governments, but there is no standardized way to collect the information.

The BOE is the proper state agency to help provide transparency to parcel taxes and this committee may want to redirect existing resources to require them to collect information on parcel tax rates, number of parcel assessed, number exempt parcels, and the sunset dates of parcel taxes and include this information in their annual report.

STAFF COMMENTS

Staff recommends directing \$250,000 in General Fund revenues for two positions at the BOE to collect parcel tax information.

Staff Recommendation: Adopt staff recommendation.

0950 STATE TREASURER

VOTE-ONLY ISSUE 33: ENHANCED TRANSPORTATION BONDS TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to set up a direct payment account for debt service from weight fees, rather than using weight fees to reimburse the General Fund.

BACKGROUND

Current law authorizes the use of weight fees to reimburse the General Fund for debt services paid on specified transportation-related general obligation (GO) bonds. Weight fees are collected in the State Highway Account and are transferred to the General Fund through the Transportation Debt Service Fund on a monthly basis.

The Trailer Bill Language will set up direct payment account for debt service from weight fees, rather than using weight fees to reimburse the General Fund. The direct payment would improve the credit rating for these bonds and allow the state to issue bonds at yields 40-50 basis points lower than other GO bonds. Additionally, this proposal would expand the state's portfolio of borrowing options.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve Trailer Bill Language.

VOTE-ONLY ISSUE 34: BOND EXTINGUISHMENT TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language that would reduce the amount of bonded indebtedness authorized under the Public Education Bond Act of 1996 by \$12.9 million. The trailer bill language also proposes to repeal the authority of the Director of General Services and the Public Works Board to issue up to \$391 million in financing securities for facilities in the Capital Area Plan.

BACKGROUND

The Constitution authorizes the Legislature, at any time after the approval by the voters of a law authorizing the issuance of bonded indebtedness, to reduce the amount of the indebtedness authorized by law to an amount not less than the amount contracted at the time of the reduction. Existing law authorizes departments of the state to issue certain securities for facilities in the Capital Area Plan.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve Trailer Bill Language.

9620 CASH MANAGEMENT AND BUDGETARY LOANS

VOTE-ONLY ISSUE 35: SUPPORT, CASH MANAGEMENT AND BUDGETARY LOANS

May Revision. The May Revision proposes technical changes to Cash Management and Budgetary Loans.

BACKGROUND

The technical changes are outlined below:

- Decrease Item 9620-001-0001 by \$10 million General Fund (from \$50 million to \$40 million) due to projected lower internal cash flow borrowing costs
- Decrease the General Fund external borrowing cost by \$40 million (from \$100 million to \$60 million) due to the expectation of lower interest rates and size of borrowing from the financial markets

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt May Revision proposal.

**0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION
FINANCING AUTHORITY**

VOTE-ONLY ITEM 36: RESIDENTIAL HOME ENERGY EFFICIENCY PROJECTS

May Revision. The May Revision proposes \$10,810,000 from the Energy Resources Program Account to provide financing for home energy efficiency projects and energy upgrades. Of this amount, \$10 million is for the Loss Reserve Fund (Local Assistance) and \$810,000 is for four positions to implement and administer the project.

BACKGROUND

The Residential Property Assessed Clean Energy (PACE) is a program that may be used to finance residential energy retrofits. The benefits of the program includes the option to repay loans as a property tax assessment for up to 20 years, and can often help to obtain secure, lower-interest terms, and payment transferability to a new owner. The program was paused in 2010 by the Federal Housing Finance Agency (FHFA). In order to restart the program, a loss revenue fund is needed. FHFA is concerned if in the event of a home foreclosure or mortgage default, a PACE lien would be superior to the federally insured first mortgage.

In June 2012, FHFA outlined risk-mitigation alternatives, which included a PACE loss reserve fund program. By creating a loss revenue fund, this program could encourage the private sector to issue PACE-specific credit enhancement products on a first come first served basis.

STAFF COMMENTS

The PACE program is consistent with the State's goals of reducing greenhouse gas emissions in the residential sector. The PACE program helps to create access to financing to enable home energy improvements.

Staff Recommendation: Adopt May Revision proposal.

7920 CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM

VOTE-ONLY ISSUE 37: CALSTRS RETIREMENT SYSTEM REVISED CREDIBLE COMPENSATION

May Revision. The May Revision proposes a technical correction regarding the amount of General Fund contribution to CalSTRS based on the revision of the credible compensation as reported for 2011-12.

BACKGROUND

The Governor's Budget estimated 2013-14 contributions of \$1.4 billion, based on October 2012 report of prior-year teacher payroll by CalSTRS. The actual amount is based on the submission by CalSTRS in April 2013 of an update to the prior-year teacher payroll.

The revision in the credible compensation results in an increase in funding of \$2.1 million. This increase consists of \$814,000 in defined benefit level, \$310,000 in the pre-1990 defined benefit level, and \$1,009,000 for supplemental benefit maintenance account.

STAFF COMMENT

Staff has no issues with this proposal.

Staff Recommendation: Adopt May Revision proposal.

7990 CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

VOTE-ONLY ITEM 38: CALPERS ADMINISTRATIVE BUDGET ADJUSTMENTS

May Revision. The May Revision proposes adjustments to eight items in the California Public Employees Retirement System's (CalPERS) administrative budget based on the 2013-14 CalPERS budget approved during the April 17, 2013, board meeting.

BACKGROUND

CalPERS has continuous appropriations authority, so these changes are to ensure display items in the budget are accurate. The items and changes are described below:

- Item 7900-003-0830, CalPERS board administrative costs paid by the Public Employees Retirement Fund, decreased by \$77.7 million;
- Item 7900-015-0815, CalPERS board administrative costs paid by Judges' Retirement Fund, increased by \$0.3 million;
- Item 7900-015-0820, CalPERS board administrative costs paid by Legislators' Retirement Fund, increased by \$0.1 million;
- Item 7900-015-0822, CalPERS board administrative costs paid by the Public Employees Health Care Fund, increased by \$4.7 million;
- Item 7900-015-0830, CalPERS board administrative costs paid by the Public Employees Fund, increased by \$38.6 million and 121.6 positions;
- Item 7900-015-0833, CalPERS board administrative costs paid by the Annuitants' Health Care Coverage Fund, increased by \$0.2 million;
- Item 7900-015-0884, CalPERS board administrative costs paid by the Judges' Retirement System II Fund, increased by \$0.25 million; and
- Reimbursements increased by \$3.9 million.

STAFF COMMENT

Staff has no concerns with this proposal.

Staff Recommendation: Adopt May Revision proposal.

9800 AUGMENTATION FOR EMPLOYEE COMPENSATION

VOTE-ONLY ISSUE 39: AUGMENTATION TO EMPLOYEE COMPENSATION AND CAPS ADJUSTMENTS

May Revision. The May Revision proposes increases in employee compensation resulting from updated health care enrollment figures, other post-employment benefit contribution for the California Association of Highway Patrolmen (Bargaining Unit 5) and previously-committed top step increases.

The Subcommittee also may consider approving a new budget bill control section to appropriate funds to adjust salaries for 14 supervisory scientist classifications per Government Code section 19826.

BACKGROUND

Item 9800 in the budget allows for adjustments in departmental budgets to account for changes in employee compensation, including salaries, health and retirement benefits.

This proposal would increase Item 9800-001-0001 by \$3.5 million to reflect increases to General Fund costs, Item 9800-001-0494 by \$1 million to reflect increases in special fund costs, Item 9800-001-0988 by \$0.5 million to reflect increases to nongovernmental cost funds.

Additionally, the Subcommittee may consider a "like pay-like work" salary adjustment for 14 supervisory scientist classifications. Beginning in 2006, the supervisory division of the California Association of Professional Scientists has argued their members were performing similar work as certain engineering supervisors and should be paid similar salaries. The Department of Personnel Administration (DPA) held a hearing on the issue and on April 28, 2008 recommended salary increases for the supervisory scientist classifications.

Despite this ruling, the classifications have never received an increase. This salary adjustment has never been included in a Governor's January budget proposal. If the adjustment were made for Fiscal Year 2012-13, it would add \$12.1 million in costs, with only \$2.3 million coming from the General Fund.

STAFF COMMENTS

Staff has no concerns with the administration's proposals.

With regard to the supervisory scientist classifications, litigation involving CAPS and the state over this issue led to a state Court of Appeals decision in May 2011. The court found that the Department of Finance has no obligation to fund DPA-approved budget changes, but that Government Code section 13337 states that the information should be provided to the Legislature to allow it to make additional appropriations to fund proposed salary changes.

To address the DPA ruling that is now more than five years old, staff recommends creating a new Budget Bill Control Section to allow the salary changes.

Staff Recommendation: Approve May Revisions and approve a new Budget Bill Control Section to appropriate the funds necessary to adjust salaries for the 14 supervisory scientist classifications.

9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

VOTE-ONLY ISSUE 40: RETIREE HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

The Subcommittee took action on April 9, 2013, to approve this request with additional placeholder budget provisional language. At this time, additional information is needed to update this item that is currently not available and will not be available this week.

STAFF COMMENTS

Staff recommends rescinding the Subcommittee's previous action on this item. This will allow time for the additional information to be made available.

Staff Recommendation: Rescind the Subcommittee's action on April 9, 2013.

0840 STATE CONTROLLER

VOTE-ONLY ISSUE 41: UNCLAIMED PROPERTY PROVISIONAL LANGUAGE CHANGE

May Revision. The May Revision proposes to revise the existing provisional language for the Unclaimed Property Fund, to better define the expenditures to be paid from this item. Additionally this provisional language would clarify that all other expenditures detailed in the various Code of Civil Procedures sections regarding Unclaimed Property Law would be made from the continuous appropriation.

BACKGROUND

The State Controller's Office states that modification to the provisional language is recommended to ensure that Unclaimed Property expenditures are made out of the correct appropriation. The revised language will define that only expenditures associated with the operating costs (Personal Services and OE&E) of the Unclaimed Property program should be made from Item 0840-001-0970.

STAFF COMMENTS

Without the clarification, SCO would continue to do business as it has in the past, which is consistent with the language proposed. Staff is cautious about the revised language due to the lack of time to properly vet the issue.

Staff Recommendation: Reject May Revision Proposal.

VOTE-ONLY ISSUE 42: ADDITIONAL STAFF FOR VARIOUS AUDITS
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The State Controller's Office (SCO) has requested five two-year limited-term positions and \$608,000 (General Fund) to perform payroll audits. Additionally, the State Controller's Office has requested 7.9 permanent positions and \$828,000 to perform audits of the state's 570 special funds.

BACKGROUND

The subcommittee heard this item at its March 19, 2013, hearing.

Payroll Audits. The first BCP is related to an issue that arose from a recent internal audit at the California Department of Parks and Recreation (Parks) that uncovered a vacation buyout program that was instituted at Parks without authorization from Parks management or the Department of Human Resources (CalHR). According to the SCO, this recent activity stresses the need for department level payroll process audits to be reinstated on the SCO legacy system.

These specific types of audits that focus on the controls existing at the department and agency levels were eliminated in the 1980s according to the SCO. The BCP would reinstate positions in order to start performing these payroll audits.

Special Fund Audits. The second BCP also pertains to Parks and the fact that Parks had been significantly underreporting available fund balances for two special funds to DOF. While Parks reported accurate amounts to the SCO, it understated the available amounts reported to DOF. The Governor directed DOF to undertake a fund-by-fund review of more than 500 special funds.

The findings concluded that the state needs to implement additional policies and procedures to address differences in the balances of the special funds reported to DOF and SCO. Moving forward DOF and SCO will coordinate their efforts and report annually to the Legislature.

STAFF COMMENTS

Staff agrees that the payroll and special fund audits should be performed by the SCO. However, staff does not agree that the SCO needs additional resources to perform functions that are under its purview. The SCO should redirect existing funding and vacant positions currently within its budget to perform these duties.

In 2011-12, SCO shows 1,455.8 authorized positions and \$1,333.4 filled positions.

Staff Recommendation: Reject request for additional resources for payroll and special audits.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT (Go-Biz)

VOTE-ONLY ISSUE 43: CALIFORNIA SMALL BUSINESS EXPANSION FUND

This item proposes placeholder trailer bill language for the implementation of local economic development tools and to increase the California Small Business Expansion Fund by \$2 million in General Fund revenues for the administration of small business loans.

BACKGROUND

This proposal would create placeholder trailer bill language to address economic tools for the local governments and small business investments.

STAFF COMMENTS

These two provisions were discussed in the Assembly Blueprint.

Staff Recommendation: Adopt placeholder trailer bill language to implement local economic development tools and increase the California Small Business Expansion Fund by \$2 million of General Fund revenues for the administration of small business loans.

VOTE-ONLY ISSUE 44: LOCAL GOVERNMENT AUDITORS

The subcommittee may consider adding placeholder trailer bill language to delete redundant county auditing authority.

BACKGROUND

The trailer bill language proposes to address redundant county auditing authority and as a result provide additional local government efficiencies.

Staff Recommendation: Adopt placeholder trailer bill language.

ITEMS TO BE HEARD

ECONOMIC DEVELOPMENT PROPOSALS

INFORMATIONAL ITEM 1: ECONOMIC DEVELOPMENT PROPOSALS

May Revision. The May Revision proposes to amend the state's job creation and economic development incentives by restructuring existing programs. This proposal includes changes to the hiring credit, sales tax exemption, and investment incentives.

The proposal is revenue neutral.

BACKGROUND

The May Revision proposes to restructure the following programs:

- **Hiring credit.** The hiring credit will be refocused to specific areas with high unemployment and poverty rates both inside and outside existing zones. This credit will be available for the hiring of long-term unemployed workers, unemployed veterans, and people receiving public assistance. A portion of these funds will be targeted to small businesses.
- **Sales Tax Exemption.** The existing sales tax exemption for businesses located in Enterprise Zones will be expanded to a statewide sales tax exemption on manufacturing or biotech research and development equipment purchases. A business will be allowed to exclude the first \$200 million equipment purchases from the state share of sales tax (4.25 percent) after approval by the Board of Equalization of a qualifying business exemption.
- **Investment Incentives.** The California Competes Recruitment and Retention Fund will be created and will be administered by the Governor's Office of Business and Economic Development (GO-Biz). Businesses will have the opportunity to compete for available funds based on specified criteria including the number of jobs to be created or retained, wages that are at least two times the minimum wage, and a set job retention period. GO-Biz will negotiate agreements to provide businesses tax credits in exchange for investments and employment expansion in California. Approval of any proposed incentive will be made by an allocation committee that may recapture the incentive if the business fails to fulfill the terms and conditions of the contract. A portion of the incentive funds will be awarded solely to small business.

Assembly Blueprint Proposal

On May 8, 2013, the Assembly Democrats released its Blueprint for a Responsible Budget, which included proposals to continue fiscal responsibility, strengthen the middle class and deliver effective, efficient services for Californians.

Specifically, this package included a proposal to invest in small businesses and called for local economic development tools.

- **Small Business.** Currently, \$160 million in available federal funds are successfully allocated for small business loans through the California Capital Access Program (CalCAP) and the Small Business Loan Guarantee Program. A one-time commitment of \$40 million will augment the federal funds to benefit small businesses helping to create jobs and strengthen the economy.
- **Local Economic Development Tools.** As the economy recovers, new ideas need to be developed to spur local economic development strategies. Local governments need the tools to improve their local economies without returning to past policies that at times led to unaccountable and wasteful spending.

Budget Impact

There is no budget impact from the proposal outlined by the May Revision. This proposal is revenue neutral and intended to restructure existing policies.

STAFF COMMENTS

The goals outlined in the Governor's economic development proposal align with the concepts outlined in the Assembly Blueprint. Staff looks forward to future conversations as more information becomes available and the trailer bill language is released by the Administration.

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (VALVET)

ISSUE 1: IMPROVING VETERANS' ACCESS TO FEDERAL BENEFITS

The Subcommittee should consider increasing the Department of Veterans Affairs (Cal Vet) appropriation by \$6 million to assist California veterans in receiving as much as \$886.1 million in federal benefits they may be owed. This proposal is part of the Assembly's Blueprint for a Responsible Budget.

PANELISTS

- Department of Veterans Affairs
- Department of Finance
- Legislative Analyst's Office

BACKGROUND

The Subcommittee at its April 16, 2013 hearing discussed possible methods of improving California veterans access to federal benefits they are owed for their service. With the wars in Afghanistan and Iraq winding down, it is estimated that more than 208,000 veterans of these wars will return to civilian life in California. These returning veterans face multiple challenges. For example, nearly 35 percent of veterans who served in Iraq and Afghanistan have been treated for Post-Traumatic Stress Disorder (PTSD); and recently separated veterans who are age 18-24 have unemployment rates as high as 28 percent.

In California, both the state Department of Veterans Affairs (Cal Vet) and County Veterans Service Offices (CVSOs) work to assist veterans in receiving federal benefits they are owed, including medical care, education, burial, and compensation and pension benefits. Since 2004, the state has distributed \$2.6 million General Fund annually to CVSOs to help support their work in helping veterans secure benefits. Cal Vet also regulates CVSO activity and accredits CVSOs.

According to internal USDVA documents obtained and published by the Center for Investigative Reporting, California veterans filing claims for the first time face extremely long waits before their claims are processed. This can lead to disabled veterans suffering from severe health issues, unemployment or other problems waiting more than a year for federal assistance.

The table below shows the average processing times for the three USDVA offices in California and the national average. Nationally, it is taking nearly one year to process new claims; and in two of California's offices, the processing time is closer to two years.

Office	Average Processing Time - Days
Los Angeles	619.4
Oakland	617.8
San Diego	283.3
National Average	349.6

As discussed at the April 16 hearing, some states have sought to address the USDVA's claims backlog. Texas, for example, has committed \$1.5 million to create "State Strike Force Teams" to work with federal officials in processing requests for claims. The teams consist of claims counselors who work inside federal veterans offices to help expedite claims' processing. The state has signed a Memorandum of Understanding with the federal government to allow the strike force teams to work with USDVA officials. Between July 2012 and January 2013, the state workers assisted more than 10,000 veterans whose claims were stuck in the backlog and forwarded 2,950 cases to the federal government for approval.

At the April hearing, the Subcommittee directed Cal Vet to provide at the May Revise a proposal to create a similar strike force to help California veterans obtain federal benefits more quickly. In addition, the plan was to include a proposal to increase funding for CVSOs and better train CVSOs to handle the unique needs of currently returning veterans.

Cal Vet provided a plan to the Subcommittee last week, although the plan was not included in the Governor's May Revise. The plan includes:

- California Veterans Service Representative Academy. Cal Vet proposes to conduct several week-long workshops across the state to better train CVSOs and others who assist veterans in accessing claims. Training will include curriculum related to handling more complicated claims, including assisting veterans with Post-Traumatic Stress Disorder, Traumatic Brain Injury and Military Sexual Trauma. Cal Vet states that it has restructured some administrative costs that allow it to conduct these trainings without new funding.
- Strike Teams. Cal Vet states that it has held discussions with the federal VA offices in Oakland, Los Angeles and San Diego regarding a limited-term collaboration that would allow state employees to work in regional offices to address the California backlog. The department's plan would be to deploy two employees to each office, with one addressing backlog issues and one working to ensure that new claims coming in to the federal office have been properly developed. The department states that it intends to hire individuals with claim filing or adjudication experience so that little new training is required. The department also notes that these new state workers currently could only assist on claims developed by CVSOs or the state; claims developed by other veterans organization such as the American Legion and Veterans of Foreign Wars could not be addressed. Thus the department proposes to work with

those groups to enter into agreements that would allow the state employees to assist with those claims as well.

STAFF COMMENTS

According to a preliminary study done by the California Research Bureau (CRB), there are currently a total of 79,614 claims from California veterans pending at the three federal offices. Of those, 60,629 have been pending for more than 125 days, which is the federal government's definition of a backlog.

CRB notes that the average disability compensation benefit received in 2011 was \$11,129 per person. CRB notes that if 100 percent of the state's current backlog received the same average benefit as in 2011, the state's veterans would receive \$674.8 million annually. If 100 percent of all claims pending were approved at the 2011 average, it would mean \$886.1 million annually for California veterans.

Based on these figures, and the apparent willingness of the three federal offices in California to work with the state, the Subcommittee should consider implementing the strike force concept but in a much bolder method than proposed by Cal Vet to truly assist deserving California veterans. The Subcommittee could consider the following proposal:

- **Create three, 12-person strike teams to work in the three federal offices.** Each team, comprised of workers with experience in this area, could embed in federal offices to both address the backlog and ensure that incoming claims have been properly developed. These workers would be hired on a three-year, limited-term basis. This proposal also would direct Cal Vet to work with other veterans service organizations to develop agreements that would allow the strike forces to work on claims developed by their organizations. The 36 new employees would cost the state an annual \$3 million.
- **Increase funding to County Veterans Service Offices.** To further assist veterans in filing claims, it is necessary to finally augment state funding for CVSOs to allow these important organizations the ability to increase positions, outreach and productivity. Combined with improved training from Cal Vet, these offices are poised to dramatically improve their efforts to help veterans. This proposal would provide a \$3 million augmentation to CVSOs, bringing total state funding to CVSOs to \$5.6 million.
- **Require annual reports detailing outcomes of this effort.** Cal Vet would be required to submit a report to the Legislature for the next three years detailing how this plan has been carried out and outcomes of the effort. The report would be due annually on March 1.

With California facing an influx of veterans over the next few years who have an increasingly complicated set of disabilities and needs, the state is obligated to help ensure that these veterans receive the federal benefits they are owed. This small investment of \$6 million will not only help veterans, but also boost the state economy by potentially drawing down hundreds of millions of federal funds.

It should be noted that Cal Vet is returning \$17.5 million General Fund to the state in 2012-13 and 2013-14 due to slower-than-expected expenditures at its veterans homes. Thus, this funding can be considered as simply redirecting some funding from within the department.

Staff Recommendation: Approve a \$6 million augmentation to the California Department of Veterans Affairs to create three, 12-person strike force teams to assist the federal government in veterans' claims processing and increase funding to County Veterans Service Offices. In addition, require the department to prepare a report due March 1, 2014, and annually for the next two years, to describe the implementation of this plan and its outcomes.

0890 SECRETARY OF STATE**ISSUE 1: BUSINESS FILINGS AND CALIFORNIA BUSINESS CONNECT**

The Governor's Budget contains one BCP related to California Business Connect, an information technology (IT) project that would bring business filings online. Additionally, the May Revision contains a proposal related to business filings.

BACKGROUND

The SOS has had a business filing and registration backlog for years. Last year, the Assembly allocated \$1.2 million of its own operating money to the SOS because Business Entity filing turnaround time reached an all-time high of 85 days. This allowed the SOS to reduce some of the backlog, and return filings and registrations within 30 days.

On May 1st, the Governor signed AB 113 (Budget Committee), Chapter 3, Statutes of 2013. The legislation allocated \$1.6 million to immediately begin reducing this backlog and get the average filing processing time down to five business days. The SOS office is required to report monthly on its progress to the Joint Legislative Budget Committee along with the Department of Finance.

The SOS believes that the implementation of their California Business Connect information technology project will greatly enhance their service, and make it possible to maintain a five business day processing time. The Governor's Budget proposes an increase of \$3.7 million in Reimbursement authority to continue with the implementation of the project, which would create a centralized information database and put SOS services online.

California Business Connect will replace an antiquated paper-based system, which includes a reliance on 3X5 index cards for records storage. The project aims to create a single intake process for the paper and online filings in order to lessen and eventually eliminate all backlogs. As a result, business filing turn-around times would be reduced, allowing businesses to launch quickly in order to generate jobs and tax revenues for California. This automation effort began in July 2011 and has a projected completion date of June 2016.

The Governor's Budget contains one BCP for SOS related to the IT project California Business Connect:

- 1. California Business Connect Project.** The Governor's Budget requests a \$3.721 million increase in reimbursement authority for Fiscal Year 2013-14. The funds will be used to contract for software customization, a test manager, an information security vendor, and to continue contracting services for project management and independent oversight. Once the vendor is selected, a Special Project Report (SPR) is expected to be submitted to the Legislature requesting approval to realign the project schedule based on the cost of the winning proposal. The project will be paid for entirely by expedited filing fee payments from the reimbursement fund.

The May Revision also contains a proposal related to the business filings backlog along with Budget Bill Language specifying the monthly reporting requirements for the SOS.

2. Business Programs Division Backlogs. The May Revision requests \$5.68 million to support the Business Programs Division. The funds will be used for 56.0 3-year limited-term positions to further eliminate the business filings backlog, in accordance with AB 113. The funds are necessary to achieve and maintain a five business day processing time.

The May Revision also proposes the Budget Bill Language to outline the monthly reporting requirements referenced in AB 113. The provisions are:

- I. The Secretary of State shall report to the Department of Finance and the Joint Legislative Budget Committee on performance of its Business Filings Division (BPD). The report shall include a summary of performance over the preceding quarter including average processing time, number of filings processed, the number of expedited filings, total outstanding filings, a summary of number of staff in the BPD, the number of vacant positions and vacancy rate, the hours of overtime worked, number of temporary workers, and hours they worked.
- II. The report required in Provision 1 shall be made on the last business day of each month through December 2013 and quarterly thereafter (March 30, June 30). However, if the December 2013 or any subsequent report indicates that the average processing time for business filings is more than 5 days, the Secretary shall include a plan to come in compliance with the 5 day standard and shall report on the last day of each month until it is in compliance.

STAFF COMMENTS

Staff has no concerns with these proposals.

Staff Recommendation: Adopt Budget Change Proposal and Budget Bill Language. Approve May Revision request.

0840 STATE CONTROLLER

ISSUE 1: 21ST CENTURY PROJECT

May Revision. The May Revision includes a request for 40 positions and \$14,556,000 (\$11.92 million General Fund) for a one-year limited-term in 2013-14, to support multiple efforts which include payroll stabilization, reconciliation, and suspension of MyCalPAYS and the legal support for the 21st Century Project.

BACKGROUND

In 2004, the SCO proposed the 21st Century Project (TFC), a new IT project to replace the existing statewide human resources management and payroll systems used to pay state employees. The new system was designed to replace the “legacy systems” which were developed more than 30 years ago. The new system, known as MyCalPAYS, was intended to manage payroll, benefits, and timekeeping in a more central and cost efficient manner than the legacy systems.

The SCO is responsible for issuing pay to the state’s 294,000 employees statewide, and therefore responsible for the implementation and management of the new system. The SCO developed a two-phase procurement process that would allow the agency to first contract to purchase commercial software and second to contract with a vendor to modify the software to meet the state’s systems integration needs. The project had delays early on that extended the schedule by two years and increased project costs from \$130 million to \$180 million. In 2009, SCO terminated the original integration services contract.

In 2010, a new integration services contract was procured and project schedule and costs were revised. The schedule was extended to October 2012 and the total costs rose from \$180 million to \$283 million. Implementation of the project was supposed to occur in five phases or pilots. These early pilots were designed to integrate a small number of employees into the system in order to test the system prior to the full launch of the system. A number of challenges occurred with the early pilots and as a result SCO sent a cure notice to the primary vendor in order to make changes. Once again the project costs increased to \$373 million and the schedule of completion moved to September 2013.

In February 2013, the SCO terminated its contract with the vendor citing inaction by the vendor in response to the cure notice and a lack of confidence that the project could be completed by the vendor. The California Technology Agency suspended further work on the project until a new plan could be created. For now, the SCO has reverted to the legacy system to administer payroll processing.

May Revision Proposal. SCO's request includes multiple parts in order to wind-down the 21st Century Project. In addition to the funding requests, the SCO has requested the addition of provisional item to allow a further augmentation SCO's budget by \$2.266 million from all fund sources for payment of data center costs to the Office of Technology related to the suspension of the 21st Century Project. The requested language includes a 30-day notification to the Joint Legislative Budget Committee.

SCO will have to deal with a number of issues moving forward related to the halting of this project, including the "Do the Math" process, legal proceedings, and ensuring the legacy systems continue to function in the absence of the new system.

During the "Do the Math" phase, the SCO will have to reconcile the employees that were undercompensated and overcompensated in pay, health benefits, and retirement benefits. SCO anticipates that this will be the majority of their work in the next six months to one year.

Additionally, SCO will have to undergo legal proceedings with the vendor on their contract. The worst case scenario, SCO would be liable for a breach of contract with SAP and would have to pay out the remainder of the contract estimated to be an additional \$55 million. However, under the best-case scenario, SCO would recover costs from SAP for its failed contract performance. Legal proceedings may take up to three years.

Finally, the concerns over the viability of the legacy system continue. The SCO pursued the 21st Century Project because the legacy system was outdated. In the absence of the new system, the ongoing concerns about the long-term stability of the systems continue to exist.

STAFF COMMENTS

The 21st Century Project has had many challenges since its inception. Staff recognizes that there is a need to conduct payroll reconciliation for the 1,300 staff at the SCO impacted by the initial phase of the 21st Century Project. However, the 40.0 requested positions seem to be excessive. The request includes staff for the pending legal case with the SAP rather than concentrating on the SCO staff payroll reconciliation. The state has dedicated a significant amount of General Fund resources with very little return on this project and the Subcommittee may wish to reduce the number of staff included in this request.

There are a lot of unanswered questions surrounding this IT project and staff recommends additional oversight and information before the project is allowed to move forward.

Staff recommends that neither the requested provisional language nor the requested Control Section be adopted in its current form. Any language that the Legislature agrees to should include a notification and authorization by the Joint Legislative Budget Committee. This is to continue to have Legislative oversight of the project.

Staff Recommendation:

Provide position authority for a total of 25 positions for two months.

Reduce May Revision requested total amount to \$13.056.

Funding shall be available for two months as well due to the extent that unanswered questions remain regarding the project. The remainder of the funds for Fiscal Year 2013-14 will be available upon Joint Legislative Budget Committee notification related to specific tasks that will be determined later in the session.

Adopt budget bill language and proposed control section ONLY if authorization from the Joint Legislative Budget Committee is included.

ISSUE 2: INTEGRATED DATA MANAGEMENT SYSTEM AND MISC. SOFTWARE PRODUCTS

May Revision. The May Revision requests \$3,018,00 in 2013-14 and \$3,482,000 in 2014-15 through 2017-18 for increased Office of Technology (OTech) Data Center costs to support California Integrated Data Management System (CA-IDMS) technology services and miscellaneous software products for which SCO is the sole user.

BACKGROUND

OTech provides hardware or software that is unique to a small group of customers and in particular, CA-IDMS is one of those services. CA-IDMS platform is a suite of software products running on the mainframe at OTech and used by the SCO as the primary mainframe database software supporting the majority of SCO's legacy systems.

In May 2011, OTech notified SCO that beginning March 31, 2012, CA-IDMS technology services would be classified as a dedicated service, meaning that only customers utilizing CA-IDMS would incur the cost. At the time, there were three agencies (SCO, CHP, and CalSTRS) utilizing the CA-IDMS. On April 1, 2013, the number of customers was reduced to two (SCO and CHP), which meant a cost increase for SCO. It is anticipated that both SCO and CHP will continue to use the technology for the duration of the contract. Should SCO become the sole user of CA-IDMS, it is estimated to be a cost increase of \$1.1 million.

The SCO has many systems that are supported by the CA-IDMS technology and therefore will continue to incur these costs until these systems are transitioned into a new database. There are two major IT project efforts to replace the CA-IDMS legacy systems including FISCAL and the 21st Century Project. Since the suspension of the 21st Century project, SCO anticipates utilizing CA-IDMS for the foreseeable future.

SCO staff is currently researching technologies to replace CA-IDMS and will report to the DOF by September 15, 2016.

STAFF COMMENTS

Given the discussion on the 21st Century project in the prior item and concerns about the stability of the legacy systems, the Subcommittee may wish to inquire why the SCO will wait until 2016 to bring recommendations to the DOF.

Staff understands that SCO will have to determine whether it is more cost effective to continue to use the CA-IDMS or to move forward with a new technology that will better suit the current and future needs. However, in order to provide additional oversight on this project and to encourage the SCO to expedite its report to the DOF, staff recommends approving funding for the 2013-14 only.

Staff Recommendation: Adopt May Revision proposal for FY 2013-14.

0950 STATE TREASURER

ISSUE 1: DEBT MANAGEMENT SYSTEM II

May Revision. This May Revision proposal requests \$677,000 in expenditures and reimbursement authority to begin the Debt Management System (DMS) II, which will replace the existing debt management system.

BACKGROUND

About 10 years ago, the State developed the current DMS to administer the State's outstanding debt, track and pay debt service and fees on outstanding debt, and track and validate the authority to issue new debt.

In 2004, at the time of implementation, the State had approximately \$33.4 billion of general obligation (GO) bonds and lease revenue bonds (LRBs) outstanding. As of January 1, 2013, the State had \$84.9 billion of GO bonds and LRBs outstanding, an increase of over 150 percent; and \$31.9 billion of GO bonds and \$7.2 billion of LRBs that are authorized but not yet issued.

DMS I cannot keep pace with the increase in the State debt issued and changes in the current law and the market. In addition to DMS I, various systems have been created in Excel and Access to address the system's inadequacies.

Funding: This project does not use General Fund revenues. Instead, the State Treasurer (STO) proposes to fund this project from specific reimbursement funds. Under current law, proceeds of GO bond sales are specifically authorized to be used by the STO in the administration of debt including special accounting systems and other services necessary to maintain the tax-exempt status of the bonds. Once GO bonds are issued, proceeds are deposited into the State's Surplus Money Investment Fund (SMIF) until the proceeds are disbursed by the State department who received the funds. While in SMIF, the undisbursed bond proceeds earn interest. The STO plans to use this interest to pay for the costs associated with DMS II.

STO has not used SMIF interest earnings on GO bonds in the past to pay for IT projects. STO states that Government Code section 16724.6 provides the authority to use these funds.

The project is expected to be completed by 2018-19 and will cost approximately \$17.6 million.

STAFF COMMENTS

The Subcommittee may wish to ask further questions about the funding source for this project. Since it is a new funding source, staff recommends supplemental reporting language to provide additional project oversight by the Legislature.

Staff Recommendation: Adopt May Revision proposal with supplemental reporting language.

7501 DEPARTMENT OF HUMAN RESOURCES

ISSUE 1: PHASED-IN PILOT FOR DELEGATION TO DEPARTMENTS

May Revision. The May Revision proposes to retain 8.5, two-year limited-term, positions and \$794,000 for the California Department of Human Resources (CalHR) to develop and implement a plan to streamline and delegate duties to departments in order to meet the goals of the Governor's Reorganization Plan No. 1 (GRP 1) of 2011.

BACKGROUND

As a result of GRP 1, the human resource management functions performed by the State Personnel Board (SPB) and the Department of Personnel Administration (DPA) were consolidated into CalHR. CalHR has been working to streamline efforts to provide more efficiency, tighter timeframes and to be more cost effective. CalHR has identified areas that can be delegated to departments in the following areas: transfers, withholds, permissive reinstatements, Board items, CEA Exams, and Service and Seniority.

The Administration has acknowledged the need to phase in delegation to departments on a pilot basis instead of implementing full delegation by July 1, 2013. CalHR will roll out delegation to departments on a phased in pilot basis, with three pilot programs including:

- CEA Program: Oversight of the levels and salary for new and existing CEAs;
- Classification and/or Certification Action Requests: process used for approval and certification of higher level management positions; and,
- Unlawful Appointments: Process to review appointments based on applicable laws, rules, and established guidelines.

CalHR will continue to process items for departments that have not been phased into the pilot program.

The goal of the phased in pilot projects is to have all departments trained to take on full delegation at the end of the two-year period. A final report will be submitted to the Governor's Office discussing the outcomes of the pilot programs. CalHR will make recommendations on how to provide oversight to the delegated departments. All departments will be required to submit monthly reports to CalHR to provide additional oversight during the pilot phases.

STAFF COMMENTS

With the recent events regarding additional appointments, the Subcommittee may wish to consider whether it is premature to delegate the review of unlawful appointments to the departments.

On Friday, May 17, 2013, CalHR provided to the Legislature its initial findings on the additional appointments within specified departments. The Subcommittee may request that CalHR discuss their findings and what measures they are taking to continue to monitor the additional appointments once the oversight is passed onto the departments.

Staff Recommendation: Adopt May Revision proposal.
