

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER TOM DALY, CHAIR

TUESDAY, MARCH 11, 2014
1:30 P.M. - STATE CAPITOL ROOM 447

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VOTE-ONLY CALENDAR

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: FUNDING RHCP-O AND RHCP-RRA SUPPORT COSTS FROM THE 0929 FUND

The Department of Housing and Community Development (HCD) requests to transfer support costs associated with administering the Rental Housing Construction Programs (RHCP) from the Rental Housing Construction Fund (0938) to the Rental Housing Rehabilitation Fund (0929 Fund). Additionally, this request proposes to reduce 2.0 positions and \$225,000 of funding in 2015-16 due to the downsizing of the program.

- \$-1,141,000 in the Rental Housing Construction Fund (0938)
- \$1,141,000 in the Rental Housing Rehabilitation Fund (0929)

BACKGROUND

HCD reports that Fund (0938) will be exhausted by 2014-15, due to a number of unforeseen economic events including the recession, increased project operating costs, and the decline in the State Money Investment Fund (SMIF). The program was intended to fund operating subsidies for 30-years, based on estimates of anticipated need in the 1980s.

In an effort to extend the life of these funds through 2026-27, HCD will take the following actions:

- Provide annuities for the RRA Program from the federal HOME Tenant Based Rental Assistance (TBRA) for two years, starting in spring 2013-14
- Anticipate RHCP-Original loan repayments
- Propose to transfer future support costs to Fund (0929), as outlined in this proposal

These actions will preserve affordable rents for approximately 1,334 households and allow HCD to work with stakeholders to develop a permanent solution.

Staff Recommendation: Approve as budgeted.

ISSUE 2: COMMUNITY DEVELOPMENT BLOCK GRANT COMPLIANCE AND IMPROVEMENTS

The proposal requests \$1.515 million in General Fund to repay federal funds and to hire nine three-year limited term positions to address workload associated with the Community Development Block Grant (CDBG).

BACKGROUND

The proposal requests \$1.515 million in General Fund to repay the Department of Housing and Urban Development (HUD) in three annual installments for unmatched federal funds. The 2014-15 budget request includes \$544,000 for the first repayment installment in addition to \$971,000 to fund nine three-year limited-term positions to address the backlog and workload associated with new federal regulations. Additionally, HCD proposes to reduce federal grants by \$1.426 million for three years for a total of \$4.277 million.

The federal CDBG program provides a wide range of community development benefits including public facilities, infrastructure and services, affordable housing, and job creation through the expansion and retention of businesses. HCD administer the State program for the 163 non-entitlement jurisdictions, which are primarily rural and in many cases located in disadvantaged communities.

The capacity to effectively run the CDBG program has been greatly diminished due to a combination of challenges including federal and state funding reductions, federal compliance audit showing that the State owes HUD \$5.9 million, and an increased workload from new federal program requirements.

In order to address the challenges of the CDBG program, HCD proposes the following:

- Address HUD's compliance audit by requesting HUD to reduce HCD's annual award for the next three years by \$1.426 million. In addition, HCD will pay \$544,000 annually from the General Fund to HUD for the next three years.
- Add \$970,000 to fund nine three-year limited term positions to provide appropriate and fully compliant program administration and technical assistance for local jurisdictions to ensure federal funds flow to communities in need.

STAFF COMMENTS

The approach by HCD to address issues identified in the compliance audit including a repayment of federal funds and a reduction of the annual award seem reasonable.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

0559 SECRETARY FOR LABOR AND WORKFORCE DEVELOPMENT 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 1: UPDATE ON UNEMPLOYMENT INSURANCE PROCESSING AND EDD BUDGET

The Secretary for Labor and Workforce Development will address the Subcommittee regarding the agency's effort to resolve long-standing problems with the issuance of Unemployment Insurance benefits.

BACKGROUND

The Unemployment Insurance Program (UI) is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. Benefits range from \$40 to \$450 per week depending on the earnings during a 12-month base period. UI program benefits are financed by employers who pay state unemployment taxes, ranging between 1.5 and 6.2 percent, on the first \$7,000 in wages paid to each employee in a calendar year. Employers responsible for a high number of unemployment claims pay the highest tax rate.

During the Great Recession, EDD has struggled to pay unemployment benefits in a timely manner and answer phone calls from the public. The department recently launched a new system, called the Continued Claim Redesign (CCR), which was intended to allow customers to handle UI transaction through self-service phone and internet interactions. During the fall of 2013, bugs within the CCR system temporarily exacerbated the department's customer service problems.

As of January 2014, only 31.1 percent of claims were paid in 7 days or less and 68.7 percent were paid within 14 days. During the last week of December 2013, almost 2 million calls were made to EDD and over 1.6 million of these were unanswered. While these performance challenges continue, a combination of an improved economy and 1.2 million Californians exhausting all benefit eligibility over the recession have reduced the overall workload for the department.

In order to understand the UI budgeting process you have to first recognize that the federal government is supposed to fund the cost of the program based on forecasted workload models provided by EDD. Since prior to 2012-13 the federal government has failed to provide one hundred percent of the funding for the UI program and in fact has limited its funding to cover only eighty five percent of historical workload costs.

Due to the federal government shorting California on funding the costs of the UI program the EDD has proposed a budget amount this year to only provide service levels at the 2012-13 level. The Governor's budget proposes \$522.5 million, which is 15 percent below full funding levels. The \$522.5 million assumes the federal government gives California \$366 million and the \$156.5 million funding gap is addressed by the state. The budget includes \$43.2 million in additional one-time special funds, which reduce the funding gap from \$156.5 to \$113.3 million.

EDD JANUARY BUDGET PROPOSAL

The Governor's budget proposed two strategies to address the \$113 million funding gap:

1. \$64.0 million augmentation from the EDD Contingent Fund in support of the state's UI Program. These funds will be used to minimize the degradation of UI services due to underfunding from the federal Department of Labor (DOL) and the reduction of federal funding due to sequestration. The proposal also provides a corresponding decrease of \$64.0 million in the Unemployment Administration (UA) Fund
2. \$49.2 million and 295 positions reductions for efficiencies identified through a Zero-Based Budgeting effort.

The Department of Finance, EDD and the Labor and Workforce Development Agency conducted a Zero-Based budgeting analysis of the Unemployment Insurance program. This analysis identified several efficiencies that were put into place:

1. **Extending the Grace Period for Continued Claim Forms Arriving Late:** Eligibility for UI benefits is determined on a weekly basis. Previously, claimants were required to complete and return their Continued Claim Form within 14 days of the date noted on the form. Extending this timeframe to 21 days will reduce the amount of follow-up work done by the EDD staff to determine if the claimant had good cause for returning the forms late. This will allow more staff to focus on providing other necessary services to claimants, while avoiding delays in paying benefits to claimants. This was implemented in February 2014 and will save an estimated \$6.3 million.
2. **Streamline Identity Verification System:** Currently, if the EDD is unable to verify a claimant's identity, the claimant receives a request to provide additional verifying information so that EDD can ensure benefits are paid appropriately. The EDD is working to streamline this process, so that will result in greater efficiency and more staff being available to provide other necessary services to claimants. This will save an estimated \$1.6 million.

3. **Shorten Initial Phone Message When Calling EDD:** When customers call the toll-free number for the UI program, they hear a lengthy recorded message providing general information. By shortening the length of this message, callers will spend less time in the phone system at a reduced cost to the UI program and will be able to get to their desired selection more quickly. This was implemented in late 2013 and will save an estimated \$900,000.
4. **Eliminate Certain Requirements for those Enrolled in School:** Currently, a claimant who indicates they are attending school or training is scheduled for an eligibility interview, even if they also indicate they are still available for work and able to work. However, with the use of alternate school schedules such as night classes and online schooling increasing, claimants are able to attend school or training and also be able and available for work. Eliminating eligibility interviews in these cases will reduce unnecessary workload and assign additional staff to provide other services to claimants, while avoiding delays in payment of benefits to claimants. This was partially implemented in December 2013 and will be fully implemented in January 2014 saving an estimated \$500,000.
5. **Review and Reduce Operational Costs:** The EDD conducted a thorough review of the operational costs of the UI program and has made changes resulting in savings in mailing, facility, administrative, hiring, and other overhead costs. In addition, the California Unemployment Insurance Appeals Board, which is the appellate body for the UI program and works closely with the EDD, is also making process improvements and identifying additional efficiencies. These cost savings help close a budget gap without reducing staff that provide direct services to claimants. For example, the estimate savings from consolidating facilities (\$3.5 million) and implementing a hiring freeze of administrative staff (\$6.8 million) will result in saving an estimated \$10.3 million.

DOF LETTER

On February 7, 2014, the Department of Finance sent a letter to the Joint Legislative Budget Committee, which notified the Legislature that the Administration intended to take three steps to address the Unemployment Insurance customer services issues.

1. Spend \$43.3 million in federal funds in the current year to address the customer service backlogs.
2. Submit a budget request to augment the Employment Development Department budget with General Fund, likely by “tens of millions”. The letter suggested this augmentation would be forthcoming in an April Fiscal Letter, but it appears that it is more likely will be part of the Governor’s May Revision.
3. Submit a Section 11 Notification to the Legislature to make immediate changes to the Unemployment Insurance legacy computer systems. The Legislature received this request on February 28, 2014, which anticipated \$3.6 million in project spending.

The DOF letter also included a letter from the Secretary of Labor and Workforce Development David Lanier to the Employment Development Department which outlined the Administration's approach to addressing the problems with Unemployment Insurance. The elements of this approach are:

1. Hire 280 additional staff, starting March 1, 2014
2. Retain 250 permanent intermittent staff currently in place until June 30, 2015
3. Continue overtime pay
4. Rehire up to 50 program staff that are trained and can provide UI services immediately.
5. Hire 155 program staff to fill existing vacancies.
6. Implement Virtual Hold/Automatic Call Notification technology for callers to EDD's UI system to improve customer service.
7. Obtain additional Information Technology expertise at EDD.

UI TRUST FUND CONDITION

Beginning in January 2009, the state's UI Fund was exhausted due to an imbalance between benefit payments and annual employer contributions. To continue to make UI benefit payments without interruption, EDD began borrowing funds from the Federal Unemployment Account. The UI Fund deficit was \$10.2 billion at the end of 2012 and is projected to be \$8.8 billion at the end of 2014.

While annual interest payments were waived under the American Recovery and Reinvestment Act for 2010, interest payments totaling \$870.7 million were paid in 2011, 2012, and 2013. The Budget includes \$231.6 million General Fund to make the 2014 interest payment. Interest will continue to accrue and be payable annually until the principal on the UI loan is repaid. The interest payment must come from state funds. As a result of the fund's insolvency, employers are negatively affected by a reduction in their Federal Unemployment Tax Act (FUTA) credit — meaning they are paying increasing levels of federal taxes each year until the fund is returned to solvency.

The Governor's January Budget submission contained a reference to meetings convened in February 2013 by the Secretary for Labor and Workforce Development to bring together key stakeholders, including business and labor, to identify preferred alternatives to meet annual federal interest obligations, repay the federal loan, and return the state's UI Trust Fund to solvency.

The Governor's 2014-15 Budget Summary makes the following statement:

A solvency solution should be developed with the following goals and principles:

- *Achieve a prudent reserve by 2021 substantial enough to withstand a recession.*
- *Repay the Disability Insurance Fund and General Fund for interest payments made by the state. Phase in changes to the financing structure to smooth the impact on employers to the extent possible.*
- *Include reforms to improve the integrity of the unemployment insurance program.*

No benefit increases can be contemplated until the fund becomes solvent, has a sufficient reserve, and can support the proposed increase ongoing

STAFF COMMENTS

The Administration is proposing action to address one of the State Government's most persistent and unresolved failures in the delivery of services to Californians - providing unemployment benefits to out of work Californians. The increased use of technology and modern business processes to deliver services, coupled with the reduced claims for Unemployment Insurance should help fix this problem in the long run, but in the short run the current performance levels are inadequate. Without additional resources, that reality may not change for years.

However, it is unclear what expectations the Subcommittee should have on how much of an improvement should be expected in the performance of EDD and how fast those improvements should be realized. The subcommittee may wish to request that the Administration provide outcome goals that are expected from this investment or the subcommittee may wish to provide this guidance to the EDD on its expectations on the department's service level. This would be similar to the approach it took in addressing the Business Filing problems at the Secretary of State.

Finally, the Administration is proposing a short-term solution to the immediate customer service problems, but still sees its investments in technology and modern business processes as the long-run solution to the customer services issues at EDD. The Subcommittee may wish to consider asking EDD to outline how it will evolve in future years, so further oversight can be possible in next year's budget process.

Subcommittee staff notes that the Administration had indicated that it would be updating its requests for resources for Unemployment Insurance administration in future budget submissions. Therefore, staff recommends holding open this item until these requests have been received.

Staff Recommendation: Hold Open

2240 HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

ISSUE 2: AWARDS FOR THE HOUSING RELATED PARKS PROGRAM

This proposal requests \$25 million appropriation to fund awards pursuant to the Proposition 1C Housing Related Parks Program (HRPP).

PANELISTS

- California Department of Housing and Community Development
- Department of Finance
- Legislative Analyst's Office

BACKGROUND

In 2006, voters approved Proposition 1C, which included funding for the HRPP program. HRPP provides financial incentives to cities and counties for the approval and preservation of units affordable to low and very low income households. Funds awarded under HRPP are used within local communities to create or rehabilitate park-related projects.

HCD has awarded approximately \$20 million in funds under the program's two Notices of Funding Availability (NOFA) for 2010 and 2011. There was no award for 2012-13 and in 2013-14 \$25 million was appropriated. There is still \$141 million available for awards.

The 2013-14 award was the first award under the changes to the program that were enacted by AB 1672 (Torres) Chapter 779, Statutes of 2012. AB 1672 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 were intended to expedite the expenditure of funds and increase the number of eligible units.

Based on the applications from the most recent NOFA for 2013-14, HCD received \$77.5 million in requests for the \$25 million appropriated in 2013-14. Since the NOFA is oversubscribed, HCD stated that without any changes the law requires funds to be distributed proportionally to all eligible applicants.

STAFF COMMENTS

Last year, the Subcommittee recommended \$25 million in one-time funding in order to evaluate whether or not this was the appropriate level of funding. The intent was to gather information from HCD on the number of applicants who applied to see whether the changes made to the HRPP in AB 1672 were in fact working. However, in order for HCD to meet the budget deadlines for the submitting requests, HCD submitted a request for an additional \$25 million based on the previous year's request before new information was available.

This year's budget change proposal projected in the fall of 2013 that 45 applications would come in for the HRPP for the 2013-14 cycle. The actual number of applications received in January 2014 was 113 with a total request of need of \$77.5 million. This is a three times higher than the appropriation amount approved by the subcommittee last year.

Based on the number of applications received, the \$25 million appropriation from last year was much too low. Also due to the way that the law is written, applicants are not allowed to reapply if more funds become available in future budgets. The Subcommittee may want to consider augmenting the program in 2014-15 budget to completely fund the applications received in 2013-14 and the anticipated need of 2014-15.

Staff Recommendation: Hold Open.

ISSUE 3: FUND CONSOLIDATION

This proposal would eliminate three funds administered by HCD and transfer funds to either General Fund or other housing funding sources.

BACKGROUND

The proposal does not affect any current housing programs - as the programs are no longer active. The following accounts are proposed to be eliminated:

- School Facilities Fee Assistance Fund (0101) -
- California Housing Trust Fund (0843)
- Rural Community Facility Grant Fund (0984)

The administration proposes trailer bill language to eliminate unnecessary funds and a transfer of cash balances for the first two funds and proposes eliminating the Rural Community Facility Grant Fund through the administrative process.

The proposal redirects the California Housing Trust Fund (\$68,000) and the Rural Community Facility Grant Fund (\$3,000) to the Housing Rehabilitation Fund (0929), which is the one of the larger funds in HCD's budget.

The proposal redirects the School Facilities Fee Assistance Fund (\$124,000) to the General Fund.

STAFF COMMENTS

The Subcommittee may wish to discuss opportunities of redirecting the funds from the School Facilities Fee Assistance Fund to the Housing Rehabilitation Fund (0929) instead of to the General Fund and preserve housing funds within the housing arena.

Staff Recommendation: Hold Open.
