AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER TOM DALY, CHAIR

WEDNESDAY, MAY 21, 2014
3:00 P.M. - STATE CAPITOL ROOM 447

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VOTE-ONLY CALENDAR

DEPARTMENT OF INSURANCE

VOTE-ONLY ISSUE 1: OFFICE OF PATIENT ADVOCATE

The Governor's Budget includes $163,000 (Insurance Fund) in FY 2014-15 and $150,000 in FY 2015-16 and ongoing to fund 1.5 positions to implement AB 922 (Chapter 552, Statutes of 2012).

BACKGROUND

AB 922 transferred the Office of Patient Advocate (OPA) from the Department of Managed Care (DMHC) to the California Health and Human Services Agency (CHHSA), effective July 1, 2012, to assist individuals, including those served by health care service plans regulated by DMHC and CDI.

AB 922 expanded the functions of OPA by including the development of educational and informational guides for consumers about health care insurance, receiving and handling complaints and referrals, preparing reports about health complaints and grievances resolved by the Department, and collecting reports from the OPA.

Demographic information will not be identified until the end of 2014, which at that time the Consumer Services Division (CSD) anticipates that the amount of time OPA staff will spend addressing each compliant will increase. In FY 2012-13, the CSD handled about 10,313 health-related complaints and 14,146 health-related telephone calls.

STAFF COMMENTS

Budget Subcommittee No. 1 requested additional time to review the item and have no concerns at this time. In Senate Subcommittee 4, approved with an agreement from CDI that they will be in compliance with Health and Safety Code Section 136000 (d) (2).

> Health and Safety Code 136000(d)(2) The Department of Managed Health Care, the State Department of Health Care Services, the Department of Insurance, the Managed Risk Medical Insurance Board, the California Health Benefit Exchange, and other public coverage programs shall provide to the office data in the aggregate concerning consumer complaints and grievances. For the purpose of publicly reporting information about the problems faced by consumers in obtaining care and coverage, the office shall analyze data on consumer complaints and grievances resolved by these agencies, including demographic data, source of coverage, insurer or plan, resolution of complaints and other information intended to improve health care and coverage for consumers. The office shall develop and provide comprehensive and timely data and analysis based on the information provided by other agencies.

Vote-Only Recommendation: Approve as Budgeted and request that the agreement that CDI also comply with Health and Safety Code Section 13600 (d)(2).

2100 ALCOHOLIC BEVERAGE CONTROL

VOTE-ONLY ISSUE 2: ENFORCEMENT OFFICERS AND RESERVE BALANCE

This proposal would fill existing PYs, add 10 enforcement officers and $1 million (Reserve balance) to the Department of Alcoholic Beverage Control (ABC). Additionally, this item includes supplemental reporting language that would require the Department to work with the Department of Human Resources to address issues of recruitment and retention, and to report to the Subcommittee on progress with filling vacancies by January 2015.

BACKGROUND

The Department of Alcoholic Beverage Control (ABC) Fund Reserve Balance was created to provide a dedicated stream of revenue for the Department to process and enforce license applications. In the FY 2014-15 budget, the reserve balance is $26.2 million.

In 1992, legislation was enacted to convert ABC from a General Fund agency to a special fund agency supported solely from license fees charged to holders of alcoholic beverage licenses. This change in law provided ABC with a dedicated and more stable funding source so ABC could continue to process license applications and to enforce point of sale violations.

Despite the creation of the special fund, ABC still faced challenges with funding to provide adequate resources for its programs. The Legislature took various actions to provide one time funding that was not sustainable to provide resources.

In 2001, legislation was enacted to address the funding issue for ABC. AB 1298 (Chapter 92, Statutes of 2001), increased the annual license fees imposed upon manufacturers, distributors and retailers of alcoholic beverages. These fees were intended to help ABC meet its continuing obligations to process and enforce point of sale violations.

FY 2014-15 staffing levels. The FY 2014-15 budget includes 429.9 employees. Of this amount, the Department has 133 positions budgeted for enforcement officers and has 117 of these positions filled. In the past, vacancy rates have been more of a problem, with a vacancy rate of about 30 percent. The investigators are sworn in as peace officers and able to make arrests for violations of the state's alcoholic beverage control laws.

STAFF COMMENTS

In order to decrease the reserve balance and to provide more enforcement officers, this proposal would authorize the addition of 10 new enforcement positions funded through the reserve balance. This would raise the number of officers to a comparable amount to 2009-10. Additionally, to ensure that positions are being filled, the Subcommittee requests Supplemental Reporting Language to require the Department to report by January 2015 on the following issues:

- What is the vacancy rate of the Department? Of the newly authorized positions, how many have been filled?
- When does the Department expect to be at full capacity?
- How has the Department worked with the Department of Human Resources to address the issues of recruitment and retention?
- What challenges is the Department facing to keep existing officers and recruit new ones?
- Has there been any changes to the descriptions that the Department uses to advertise its positions?

Vote-Only Recommendation: Increase ABC's enforcement officers by 10 positions and $1 million (Reserve balance), and adopt Supplemental Reporting language.

8260 CALIFORNIA ARTS COUNCIL

VOTE-ONLY ISSUE 3: ADDITIONAL FUNDING

This proposal would provide an additional $5 million (General Fund) for the California Arts Council.

BACKGROUND

In 1975, the California Arts Council was created and signed into law by Governor Jerry Brown. The largest General Fund allocation included in the California Arts Commission's budget occurred in 2000-01, at a level of $32 million. During the fiscal crisis of 2003-04, the California Arts Council lost 94 percent of its funding, which resulted in cuts to arts council programs and staff. Over the past decade, the General Fund allocation to the Arts Council has hovered at about $1 million.

In 2003-04, the California Arts Council's core programs were eliminated and limited number of grants were targeted to select organizations serving K-12 school children, seniors, at-risk youth, multicultural communities and local arts agencies. Since then, the California Arts Council has re-established several of its core efforts including support for local art agencies (State-Local Partnership) and Artists in Schools, and has designed other programs to serve rural and inner city communities, and statewide service networks. These grant-making efforts are supported with revenues from the Sale of the Arts License Plate and Federal funds received from the National Endowment for the Arts.

STAFF COMMENTS

The subcommittee heard this item on April 8, 2014, where an overwhelming amount of support to restore funding for the arts was heard. In addition, most members of the Assembly signed onto a letter in support of restoring funding for these vital programs.

Vote-Only Recommendation: Increase the Arts Council budget by $5 million.

0911 CITIZEN'S REDISTRICTING COMMISSION

VOTE-ONLY ISSUE 4: ONGOING COMMISSION OPERATIONAL COSTS

The Governor's Budget includes ongoing funding for the Citizen's Redistricting Commission.

BACKGROUND

The "Voters First Act" (Proposition 11 of 2008) and the "Voters First Act for Congress" (Proposition 20 of 2010) established an independent 14-member Citizens Redistricting Commission to draw the decennial district boundaries for California's Congressional delegation, state Senate, state Assembly, and Board of Equalization

The Governor's Budget proposes to increase the commission's budget by $20,000 to pay for (1) DGS accounting, budgeting, and personnel services ($15,000) and (2) legal services ($5,000). The budget bill includes the same contingency provisional language authorizing the Department of Finance (DOF) to approve one-time augmentations if necessary for the commission to satisfy its constitutional duties.

Current law requires the Legislature to fund certain activities of the Commission. During the first three years of the redistricting process (2009-2011 for the most recent cycle), the Legislature must make available to the commission the greater of $3 million or the amount spent in the previous redistricting cycle, adjusted for inflation. In addition, the Legislature "shall provide adequate funding to defend any action regarding a certified map." Outside of these two requirements, the Legislature has authority to establish the funding level necessary for the commission to fulfill its duties.

The Commission's primary duty is to approve new district boundaries. This is accomplished during the first three years of the redistricting process. Thus, after it certifies the maps from the last redistricting process, the commission's duties diminish significantly to (1) defending the maps in legal proceedings, (2) appointing new Commission members to fill any vacancies, (3) responding to any requests for access to public records under the Public Records Act, and (4) approving any amendments to implementing legislation.

In 2013-14, the Commission was budgeted for $71,000 and authorized for 0.5 positions at a Staff Services Manager 1. The administration indicates that funding from prior years—not included in the $71,000—is being used to finance an interagency agreement with the Department of General Services (DGS) to provide the commission with accounting, budgeting, and personnel services. The budget includes provisional language that authorizes the Director of Finance to augment the commission's budget—after a 30-day Joint Legislative Budget Committee review, if the commission meets to fulfill any of the four duties discussed above.

STAFF COMMENT

In 2013 the Subcommittee took action to provide ongoing funding for the Commission to ensure continuity of its operations and secure the Commission's ongoing independence. The LAO recommendation would not provide sufficient funding for this continuity to continue.

The Subcommittee previously considered this issue on April 8, 2014.

Vote-Only Recommendation: Approve as Budgeted.

C.S. 11 CONTROL SECTION 11

VOTE-ONLY ISSUE 5: CONTROL SECTION 11

Control Section 11 is an important tool to overseeing IT projects, but staff recommends that it should be rewritten to target costs that are associated with a change in project scope.

BACKGROUND

After consulting with stakeholders over the last year, the Department of Finance has proposed the following change to Control Section 11 language:

The Department of Finance shall report to the Joint Legislative Budget Committee when a reportable information technology project's overall costs increase by $5 million or 20 percent, whichever is less. The report shall be submitted within 30 days after the Department of Technology issues an approval letter for the special project report which includes these changes.

Each report shall include the total change in cost, scope, and schedule; the reason for the change(s); a description of new and/or amended contracts required as a result of the change(s); a list of the risks and issues as identified in the last two Independent Verification and Validation and Independent Project Oversight reports and any risk and issue that has been identified since those reports; and the department's planned mitigation of these risks and issues.

This language would replace the existing Control Section Language, which has been unchanged in the budget for almost 20 years.

STAFF COMMENTS

Control Section 11 is designed to provide the Legislature with notice on changes to IT projects that will have future costs and major changes in scope to IT projects. However, the current crafting of this Control Section captures changes in costs that may not be due to either of these factors and does not fully capture the changes in project scope which have typically been at issue with IT projects.

The Department of Finances proposed language would better target the information the Legislature needs to oversee IT expenditures.

Vote-Only Recommendation: Adopt May Revision Proposal.

C.S. 1.5 CONTROL SECTION 1.5

VOTE-ONLY ISSUE 6: CONTROL SECTION 1.5

The May Revision contains a proposal to make technical changes to Control Section 1.5

BACKGROUND

Control Section 1.5 of the budget provides direction on the accounting structure of the budget. The May Revision includes technical changes to this section due to the pending implementation of the Fi$Cal accounting system.

STAFF COMMENTS

In addition the Subcommittee could adopt placeholder language to make further changes to statutory authority provided in the 1990's that is duplicative and no longer needed.

Vote-Only Recommendation: Adopt May Revision and Placeholder Trailer Bill Language.

7502 DEPARTMENT OF TECHNOLOGY

VOTE-ONLY ISSUE 7: REPORTING LANGUAGE ON SOFTWARE USE

The May Revision contains a proposal to make technical changes to Control Section 1.5.

BACKGROUND

The Department of Technology is responsible for IT procurement.

STAFF COMMENTS

At an informational hearing on March 20, 2014, the Subcommittee discussed strategies to encourage the use of commercial off-the-shelf software and a desire to study the issue further. To that end, the Subcommittee could consider adopting the following Supplemental Reporting Language:

The Department of Technology shall provide a plan to the Assembly Budget Committee and the Assembly Budget Subcommittee #4 by December 1, 2014 on how large enterprise information technology projects and cloud computer projects that the state develops or contracts to develop can incorporate more commercial off the shelf technology and software. The Department of Technology shall study whether other states and the federal government incorporate greater use of commercial off the shelf products and analyze what the cost benefits are to expanding its use in California.

Vote-Only Recommendation: Adopt Supplemental Reporting Language.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

VOTE-ONLY ISSUE 8: PROCESS SAFETY MANAGEMENT UNIT EXPANSION

The Subcommittee will consider the funding request for the Process Safety Management Unit.

BACKGROUND

In August 2012, a fire broke out at Chevron Richmond refinery when a severely corroded pipe in the refinery's #4 Crude Unit began leaking. Chevron managers did not shut the unit down; instead, they 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.

The Process Safety Management (PSM) Unit within the Division of Occupational Safety and Health (DOSH) enforces "process safety management" procedures regarding potentially hazardous processes that exist in a wide variety of industries, including oil refineries. California is the only State to have a dedicated unit for this function, which has a staff of 11 to inspect 1,600 facilities that use, process, or store large quantities of toxic, flammable, or explosive chemicals. On average, this unit inspects 27 refineries as well as 112 other facilities per year. Last year, Budget Subcommittee No. 4 found that the PSM needed at least 15 additional positions to have enough personnel to ensure worker and citizen safety within these industries.

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 did not collect such a fee. The 2013-14 Budget contained Budget Bill Language to direct the department to use its statutory authority to approve a fee to support an increase in funding and at least 15 new positions for the Process Safety Unit, which inspects oil refineries and chemical plants.

The Governor's proposed budget includes a proposal to expand the PSM staffing by 15 staff—11 new positions that includes four positions redirected from the Targeted Inspection and Consultation Fund program (proposed for reduction in the budget). The full staffing plan is in the chart below:

Classification	Existing Staff	Proposed New	Redirected TCIF	Total
District Manager	1	0	1	2
Associate Safety Engineer	8	10	2	20
Associate Government Program Analyst	0	1	0	1
Office Technician—Typing	2	0	0	2
Career Executive Assignment II	0	0	1	1
Total	11	11	4	26

The Governor's budget proposes that positions related to refinery inspection be funded with a new fee on the refinery industry. The newly established regulatory fee for oil refineries is based on the amount of crude oil being processed at each refinery to fund inspections and enforce workplace health and safety regulations.

The department has provided the following chart to illustrate the expected increase of inspection levels that will result from the additional positions:

Planned Inspection Type	Descriptor	# Inspections	Average Hours per Inspection	Total Inspection Hours
Cumulative Total Past Inspections Between 2001-2012	These primarily included Program Quality Verification inspections which are similar to Special Emphasis Program inspections.	70	64	4,477
Annual Average from the Inspections listed above during 2001-2012		**5.83**	**64**	**373.08**
Future SEP Inspections per year	SEP inspections are those which review specific hazards or processes that are of concern. These are generally driven by a specific event.	15	500	7,500
Future NEP Inspections per year	NEP inspections are traditional comprehensive inspections of a facility.	4	1,200	4,800
Future Turnaround Inspections per year	Turnaround inspections are used to inspect a refinery unit when it is shut down and restarted for scheduled maintenance repair or replacement work.	4	1,500	6,000
Future Contractor Inspections per year	Contractor inspections ensure that contractor employees working within refineries adhere to safety and health guidelines.	60	80	4,800
Total Future Inspections per year		**83**	**278**	**23,100**

As a result of this new fee, the department is able to redirect $3.3 million of Occupational Safety and Health Fund revenues that once supported the PSM program to the overall Division of Occupational Safety and Health program. This allows the department to fill 26 existing positions that lacked funding.

STAFF COMMENTS

The Subcommittee previously heard this issue on March 18, 2014.

The Subcommittee could consider adopting reporting language that would require the Department to provide an update on meeting the outcome goals for safety inspections so that further oversight of this importation function can continue.

Vote-Only Recommendation: Approve as budgeted with Budget Bill Language on reporting.

VOTE-ONLY ISSUE 9: PUBLIC WORKS CONTRACTING ENFORCEMENT

The Subcommittee will consider the Department of Industrial Relations budget proposal to stabilize the public works contracting functions at the Division of Labor Standards and Enforcement.

BACKGROUND

The Governor's Budget includes a proposal to stabilize funding for the public works contracting functions at the Division of Labor Standards and Enforcement, which monitors and enforces prevailing wage laws.

Since 2009, public works enforcement activities of the Division of Labor Standards and Enforcement has been supported by either:

1) a set aside of 0.25 percent of bond funds for a public project for bond funded projects; or
2) a surcharge employee compensation premiums for non-bond funded public works projects.

These funding mechanisms did not provide stable and predictable revenue necessary to support the positions needed for enforcement for various reasons including cash flow timing and a mismatch between the projects with funding and those that may need enforcement. In last year's budget, the Administration indicated that it would begin work on a replacement funding plan to fix this problem.

The Governor's Budget includes both Budget and Trailer Bill Language to implement the new model. The Administration's plan includes supporting the prevailing wage activities with a new fee, estimated at $300 per contractor, in lieu of the previous funding mechanism. The program would have $11.4 million and 83 positions for public works activities in 2014-15.

STAFF COMMENTS

The Subcommittee heard this issue on March 18, 2014. At that time the Subcommittee requested the Department work with stakeholders to address concerns heard in committee. Since that time, the Department has complied with the Subcommittee's request and worked with stakeholders to address concerns with the proposed Trailer Bill provisions. The Department has issued revised trailer bill proposal that reflects the feedback from stakeholders.

Vote-Only Recommendation: Approve as Budgeted.

8850 STATE PUBLIC WORKS BOARD

VOTE-ONLY ISSUE 10: STATE PUBLIC WORKS BOARD – RESERVE FUNDS

The Administration proposes minor technical amendments to delete the statutory requirement that excess construction reserve bond proceeds be used to pay debt services. The proposed changes will help reduce unnecessary borrowing costs and facilitate compliance with federal tax laws.

BACKGROUND

The State Public Works Board (Board) is authorized to issue lease revenue bonds to finance authorized capital outlay project costs, as well as other associated costs, including a reasonable construction reserve, capitalized interest, and other issuance costs. The Board has historically used Pooled Money Investment Account (PMIA) loans to fund short-term project costs through the majority of the construction phase, with long-term bonds issued at that time to repay the PMIA loan and fund the balance of project costs, if any.

When issuing bonds toward the end of construction, there are generally fewer unforeseen cost issues, thus not requiring a large reserve. Because of the small amount of funds that have traditionally remained upon project completion, the statutory requirement that funds remaining in the construction reserve be used to pay debt service has not been a significant issue until recently.

The Pooled Money Investment Board (PMIB) revised its lending policy for the PMIA in the fall of 2008, in response to General Fund cashflow concerns and to help the state meet its obligations. Initially, all new loans from the PMIA were halted. The PMIB eventually approved a $500 million limit for critical, court-ordered projects. As a result, the Board has issued bonds for many projects ineligible for PMIA loans prior to the start of construction, which increases the need for a larger construction reserve to ensure sufficient funds are available should unforeseen conditions be encountered, such as high construction bids, large change orders, or weather delays.

Projects that were financed as described above are now complete or close to being complete, with excess funds in the construction reserve that are currently only available to offset debt service. While the payment of debt service with excess construction reserve funds is allowed under federal law, the extent may vary based on the facts of a particular bond issue.

STAFF COMMENTS

According to the Department of Finance, the proposed trailer bill language would provide additional flexibility for the Board to use these proceeds to fund other legislatively-authorized project costs. Using the excess reserve funds in this manner would not only be more fiscally efficient, by eliminating duplicate issuance costs, it would allow greater flexibility for compliance with complex federal, post-issuance compliance laws. Therefore, this proposal allows for more cost effective project financing and increased flexibility for compliance with federal tax law.

Vote-Only Recommendation: Adopt Trailer Bill Language as proposed by Department of Finance.

9620 CASH MANAGEMENT AND BUDGETARY LOANS

VOTE-ONLY ISSUE 11: SUPPORT, CASH MANAGEMENT AND BUDGETARY LOANS

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 $30 million General Fund (from $60 million to $30 million) due to revised projections of lower interest rates and flow borrowing needs.

- Increase Item 9620-002-0001 by $400,000 (from $54 million to $54.4 million) to reflect the latest loan repayment schedule.

- Decrease the General Fund external borrowing cost by $30 million (from $40 million to $10 million) due to reduced daily cash flow borrowing needs.

The two-year General Fund savings is $86.9 million.

LAO COMMENTS

The Legislative Analyst's Office has also analyzed the numbers included in the Spring Finance Letter. The LAO states that since the internal borrowing costs (9620-001-0001) in the current year are $10 million, the LAO finds it is reasonable to assume that internal borrowing costs in the budget year will be similar. Because of this, the LAO recommends an additional $20 million savings in the internal borrowing costs.

Additionally, the LAO states that the RAN costs (a non-budget item) should be lower. In the current year, the RAN costs are lower than $20 million for a $5 million RAN. The Administration plans a $3.5 billion RAN in the budget year, so the LAO would recommend that the Legislature direct the administration to lower the amount they score in the non-budget act item by $10 million (from $30 million to $20 million).

Staff Recommendation: Adopt May Revision proposal modified by the LAO recommendation as outlined above.

9900 STATEWIDE GENERAL ADMINISTRATIVE EXPENDITURES/ 9910 GENERAL FUND CREDIT FROM FEDERAL FUND

VOTE-ONLY ISSUE 12: STATE AGENCIES: ADMINISTRATIVE COSTS TRAILER BILL LANGUAGE

The trailer bill language would make technical changes by updating the names of various state entities and would make a conforming change related to Section 11270 of the Government Code related to administrative costs.

BACKGROUND

The trailer bill language would make the following technical amendments:

- Delete the California Technology Agency and add in Department of Technology,
- Delete the Secretary of State and Consumer Services, and
- Delete the Bureau of State Audits and replace with the California State Auditor's Office.

STAFF COMMENTS

Staff has no concerns with the proposal.

Vote-Only Recommendation: Adopt Trailer bill language.

0840 STATE CONTROLLER'S OFFICE

VOTE-ONLY ISSUE 13: SUPPLEMENTAL REPORTING LANGUAGE FOR CONTROLLER'S OFFICE AND FINANCIAL TRANSACTION REPORTS

The item proposes additional supplemental reporting language for the State Controller's Office (SCO) and Financial Transaction Reports (FTR).

BACKGROUND

The item requests through Supplemental Reporting Language that the SCO provide the Assembly and Senate Budget Subcommittee #4 a plan by December 1, 2014, on how to incorporate the collection of parcel tax information into the Annual Financial Transaction Report (FTR).

STAFF COMMENTS

Staff will continue to work with the SCO and the LAO to develop supplemental reporting language to achieve.

Vote-Only Recommendation: Adopt Placeholder Supplemental Reporting Language

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 14: SUPPORT, CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

The May Revision requests an increase to support the California State Teachers' Retirement System (CalSTRS).

BACKGROUND

In January, the Governor's budget proposed to hold a stakeholder meeting in 2014-15 to discuss a shared responsibility between the Legislature, school districts, teachers and the pension system to achieve a fully funded, sustainable teachers' pension system within 30 years. At the release of the January budget, it was anticipated that an approach could be reached this year, and that approach would be included in the 2015-16 budget.

Throughout this year, both the Assembly and Senate Committees on Public Employees, Retirement and Social Security have met jointly to discuss this issue throughout the year and have been instrumental to understanding the policy issues involving the unfunded liability.

May Revise Proposal

The Governor's May Revision proposes a solution to the Unfunded Liability that was not envisioned in January, but included based on work with stakeholder groups including the Assembly and Senate policy committees.

The proposal includes a solution to eliminate by the CalSTRS unfunded liability estimated at $74 billion by 2045-46 (over 30 years) including:

- Providing a plan based upon shared responsibility among the state, school districts, and teachers

- Proposing to phase in the state's contribution over three years beginning with providing $450 million ($59.1 million General Fund) in additional funding in 2014-15

- Increasing teacher contributions from 8 percent to 10.25 percent phased in over three years

- Increasing school contributions from 8.25 percent to 19.1 percent of payroll, phased in over seven years

- Increasing the state's total contribution to the Defined Benefit plan from 3 percent in 2013-14 to 6.3 percent of payroll by 2016-17 and ongoing.

- Providing that the state continues to pay 2.5 percent of payroll annually for a supplemental inflation protection program for a total of 8.8 percent. The state's share reflects the shortfall that would exist had benefits or contributions not changed after 1990.

STAFF COMMENTS

During the Assembly Budget Subcommittee No. 2, on Friday, May 16, 2014, there was a lot of public comment on the proposal.

Throughout this year, as noted above, the Assembly Public Employees, Retirement and Social Security Committee have held policy discussions on the unfunded liability for the California Teachers' Retirement System.

Staff recommends Subcommittee No. 4, refer the policy elements of this item to the Assembly Public Employees, Retirement and Social Security Committee to hear on Thursday, May 22, 2014, and report to the Assembly Budget Committee with their recommendation for the program.

The Assembly Budget Committee will conform to the recommendation from the Assembly Public Employees, Retirement and Social Security Committee at a later date.

Vote-Only Recommendation: Refer Issued to the Assembly Public Employees, Retirement and Social Security Committee

0840 BOARD OF EQUALIZATION

VOTE-ONLY ISSUE 15: BOARD OF EQUALIZATION BUILDING

This proposal includes placeholder trailer bill language to use $2 million from the Architecture Revolving Fund (ARF) to allow the Department of General Services to begin to solicit proposals for a location for the Board of Equalization (BOE).

BACKGROUND

On March 25, 2014, and August 30, 2013, Subcommittee 4, heard presentations related to the problems related to the BOE Headquarters at 450 N Street.

STAFF COMMENTS

Staff recommends adopting placeholder trailer bill language to allow the use of $2 million from the Architecture Revolving Fund to allow DGS to begin to solicit proposals for a new BOE location.

Vote-Only Recommendation: Adopt Placeholder Trailer Bill Language.

ITEMS TO BE HEARD

0840 BOARD OF EQUALIZATION

ISSUE 1: BOE ADMINISTRATIVE COSTS RELATED TO FIRST FIVE: SUPPLEMENTAL REPORTING LANGUAGE

This proposal includes Supplemental Reporting Language for the Board of Equalization (BOE) on the administrative costs related to the First Five program.

BACKGROUND

The BOE imposes administrative costs to the General Fund and three special funds - the Breast Cancer fund, Prop 99, and Prop 10 – to fund the Cigarette and Tobacco Compliance Fund, created under AB 71 (Chapter 890, Statutes of 2003) to administer and collect the tax imposed on tobacco products in California.

In 2003, the BOE received broad, new authority with the passage of AB 71 to create licensing and enforcement program to track the sale of cigarettes and tobacco products in California. The revenues collected from the retailers, distributors/wholesalers and manufacturers of tobacco products were to support the new BOE licensing and enforcement program. In 2003, it was not envisioned that there would be shortfalls in the future, nor was it anticipated that the General Fund would have to support the costs of the program.

In the 2006-07 Governor's budget the BOE acknowledged the AB 71 licensing fee revenues were declining (from $17.8 million to $2.1 million) and asked for reimbursement authority for the costs of the program from the General Fund and the three special funds – Breast Cancer, Prop 99, and Prop 10. The BOE made this change in the funding stream to support the AB 71 program without new legislative authorization and created a new cost allocation methodology between the General Fund and special funds that remains to this day.

Currently the BOE costs for administering the licensing and enforcement program is $34 million. Prop 10's cost allocation amount as determined by BOE is over $17 million, which is almost fifty percent of the total administrative budget for the licensing and enforcement program.

The BOE argues that it had authority to tap the General Fund and the special funds to pay for the licensing and enforcement program as created under AB 71. At the time they requested to move to the new funding source in 2006 the BOE also acknowledged that there was no political appetite to increase taxes to cover the revenue declines to support AB 71 and the state budget was entering into a prolonged deficit.

When Prop 10 was passed in 1999, the LAO estimated the cost of administering the program would be approximately $600,000 and in the 2000-01 BOE budget change proposal to implement Prop 10 the board requested $700,000.

BOE has historically argued that it needs to maintain a vigorous licensing and enforcement program as mandated by the state to protect tobacco tax revenue from evasion. By doing these activities, BOE argues that all the programs benefit from revenues that are gained through enforcement.

The supplemental reporting language will examine how the administrative costs continue to climb for a program that has a declining revenue stream. It will allow the legislature to re-examine the program and whether there are ways to address the problem.

STAFF COMMENTS

Staff recommends the adoption of Placeholder Supplemental Reporting Language to require BOE to report on the administrative costs relative to the enforcement activities. Staff will work with the LAO on the SRL.

Staff recommends that the Department of Public Health convene a stakeholder meeting with the Breast Cancer, Prop. 99, Prop. 10 advocates, BOE, DOJ, LAO, and tobacco industry to develop a policy plan for next year to achieve the following goals:

- Examine the cost allocation for the special funds by recognizing that these special funds have a mission to provide revenue for public health programs not to support statewide tobacco licensing/enforcement program.
- Develop a long term, self-sustaining and realistic funding plan for the administration of AB 71. This may include more General Fund support, increase in licensing fees, and or other ideas or a combination of them all.
- Require a plan to be developed by Dec 1, 2014.

Staff Recommendation: Adopt Placeholder Supplemental Reporting Language.

VARIOUS DEPARTMENTS

ISSUE 2: ASSEMBLY INFRASTRUCTURE PLAN

The Subcommittee will consider adopting the Assembly Infrastructure Plan.

BACKGROUND

The Governor's Budget includes a $815 million infrastructure package, with projects ranging from transportation, to schools, to state building maintenance.

STAFF COMMENT

The Subcommittee has expressed the intent to make infrastructure a priority. To that end, the Subcommittee could consider adopting a plan which would expand the Governor's version by half a billion dollars, almost doubling the package.

The elements of this package could be as follows:

Assembly 2014 Infrastructure Plan Infrastructure Items	Expenditure (millions)
Transportation Infrastructure	$ 500
California Community Colleges	199
K-12 Schools Emergency Repair Program	188
Multi-Family Housing Program	100
Multi-Family Supportive Housing Program	100
Energy Conservation Assistance Act (ECAA) Loans	56
UC/CSU Deferred Maintenance	50
Department of Parks and Recreation	40
K-12 High Speed Internet Access	27
Department of Corrections and Rehabilitation	20
Judicial Branch	15
Department of Developmental Services	10
Department of State Hospitals	10
Department of General Services	7
State Special Schools	5
Department of Forestry and Fire Protection	3
California Military Department	4
Department of Food and Agriculture	2
Department of Veteran Affairs	1
Total	**$1,337**

The Assembly Infrastructure Package represents actions that have been taken, or are anticipated to be taken in all five Budget Subcommittees. In addition to these actions, in voting for this package, the Subcommittee would adopt the following two important infrastructure investments.

- *$100 million for the Multifamily Housing Program (MHP)*
  This is an existing program that has been funded through bond proceeds. Eligible uses have traditionally been for new construction, rehabilitation, or acquisition and rehabilitation of permanent rental housing, and the conversion of nonresidential structures to rental housing. Because previous funds were bonds funds it could only be used for “bricks and mortar” uses. These funds would not have that restriction, and for that reason I would recommend to consider making operating expenses an eligible use. MHP is the most in demand program on the rental side and an infusion of money would create an immediate impact.

- *$100 million for the Multifamily Housing Program-Supportive Housing (MHP-SH)*
  This is an existing program that has been funded through bond proceeds. Just like its parent MHP program, eligible uses are for new construction, rehabilitation, or acquisition and rehabilitation of permanent rental housing, and the conversion of nonresidential structures to rental housing. However, the MHP-SH program is focused towards the production of permanent supportive housing for persons that are homeless and of extremely low incomes. These homes are permanent yet offer a menu of on or off-site support services to tenants. Because these funds would not have a restriction of only funding “bricks and mortar” uses, and because services funding is one of the most difficult pieces to fund in these developments, we may want to consider a tweak that allows for the capitalization of a services funding reserve in these developments if other services funding cannot be identified or secured.

Staff Recommendation: Adopt Assembly Infrastructure Plan