

**AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION**

Assemblymember John Dutra, Chair

**TUESDAY, 1:30 MAY 18, 2004
STATE CAPITOL, ROOM 447**

ITEMS ON CONSENT

ITEM	DESCRIPTION	PAGE
0840	State Controller	4
Issue 1	May Revision	4
0845	Department of Insurance	4
Issue 1	April Finance Letter	4
1110	Department of Consumer Affairs -Boards	5
Issue 1	April Finance Letter	5
Issue 2	May Revision	5
1700	Department of fair Employment and Housing	6
Issue 1	May Revision	6
1760	Department of General Services	6
Issue 1	April Finance Letter	6
Issue 2	May Revision	8
2120	Alcohol and Beverage Control Appeals Board	8
Issue 1	May Revise—Graduate Assistant	8
2240	Department of Housing and Community Development	8
Issue 1	April 1 Finance Letter	8
Issue 2	Rental Rates for Migrant Centers	9
7350	Department of Industrial Relations	9
Issue 1	April Finance Letter	9
Issue 2	May Revision	9
8940	Military	10

Issue 1	May Revision	10
8955	Department of Veterans Affairs	10
Issue 1	May Revision	10
1100	African American Museum	10
Issue 1	April Finance Letter	10

ITEMS TO BE HEARD

ITEM	DESCRIPTION	PAGE
0840	State Controller	11
Issue 1	May Revision	11
0845	Department of Insurance	11
Issue 1	Seismic Safety Grants Trailer Bill	11
1760	Department of General Services	12
Issue 1	April 1 Finance Letter	12
Issue 2	May Revision	13
Issue 3	Control Section 33.50 – Strategic Sourcing	14
2100	Department of Alcohol and Beverage Control	14
Issue 1	Trailer Bill	14
2240	Department of Housing and Community Development	15
Issue 1	Regional Housing Needs Assessment Mandate	15
Issue 2	Enterprise Zone Program Staffing	16
7100	Employment Development Department	17
Issue 1	Finance Letter	17
Issue 2	May Revision	18
Issue 3	Workforce Investment Act	18
7350	Department of Industrial Relations	19
Issue 1	April 1, 2004 Finance Letter	19
8620	Fair Political Practice Commission	20
Issue 1	Proposed Reductions	20
8780	Milton Marks "Little Hoover" Commission on California State Government Organization and Economy	20
Issue 1	May Revision Restoration Request	20
8955	Department of Veterans Affairs	21
Issue 1	Morale Welfare and Recreation Fund	21

ITEMS ON CONSENT

ITEM 0840 STATE CONTROLLER

ISSUE 1: MAY REVISION

General Fund Reduction. The Administration is proposing in the May Revise a \$122,000 General Fund reduction in Operating Expenses and Equipment (General Expense).

ITEM 0845 DEPARTMENT OF INSURANCE

ISSUE 1: APRIL FINANCE LETTER

The Department of Finance has made the following proposals in an April 1, 2004 Finance Letter:

1. \$323,000 Special Fund for an increased annual assessment on health care plans to the Department of Aging for the Health Insurance Counseling and Advocacy program.
2. \$399,000 and 4 two-year limited-term positions to investigate and prosecute employers who do not purchase workers' compensation insurance coverage.
3. \$1.3 million Special Fund increase for the investigation and prosecution of health and disability insurance fraud.
4. \$570,000 Special Fund increase to address a backlog in cases, caseload maintenance and program enhancements related to violations by automobile insurance agents and companies.
5. \$987,000 Special Fund increase for increased compensation cost for county investigators as a result of recent Memoranda of Understanding between various counties and the Public Employment Retirement System.
6. \$2.9 million Special Fund in one-time expenditure authority to distribute excess local assistance funds to District Attorneys for the Fraud Automobile and Urban Grant Programs.

ITEM 1100 DEPARTMENT OF CONSUMER AFFAIRS**ISSUE 1: APRIL 1 FINANCE LETTER**

1. **Contractor's State Licensing Board.** The Department of Finance has requested in an April 1 Finance Letter that the Contractor's State License Board support be increased by \$187,000 to provide resources to allow the Contractors' State License Board to implement Chapter 744, Statutes of 2002. This bill requires that new applicants submit to a criminal fingerprint screening.
2. **Board of Registered Nurses.** The Department of Finance has requested in an April 1 Finance Letter that the Board of Registered Nursing support budget be increased by \$229,000 to provide one-time resources to allow the Board to respond to litigation that has been filed against it. This litigation is likely to be precedent setting, as it would determine the Board's ability to require out-of-state nursing schools to comply with California.

ISSUE 2: MAY REVISION

The Department of Finance has proposed the following in the May Revision.

1. **Board of Vocational Nurse and Psychiatric Technician Examiners.** \$310,000 (Special Fund) augmentation to provide funding for the Vocational Nursing and Psychiatric Technician Examiners licensing programs to address ongoing licensing workload.
2. **Board of Accountancy.** \$208,000 (Special Fund) augmentation to provide funding to address ongoing licensing workload.
3. **State Board of Barbering and Cosmetology.** \$893,000 (Special Fund) augmentation to provide funding to address ongoing workload in the areas of establishment inspections, examinations, and license applications.
4. **Board of Registered Nursing.** \$955,000 (Special Fund) augmentation to provide funding to address ongoing licensing workload.
5. **Contractors State Licensing Board.** \$239,000 (Special Fund) augmentation for Construction Management Education Grants to postsecondary education institutions offering programs in construction management.
6. **Bureau of Naturopathic Medicine.** It is requested that Item 1111-002-3069 and Reimbursements be added to provide for the implementation of Chapter 485, Statutes of 2003. Funding for the Bureau of Naturopathic Medicine is proposed to be \$93,000 annually beginning in 2004-05. Of this amount, \$45,000 is proposed to be offset by reductions to Department of Consumer Affairs (DCA) Administration.

7. **Attorney General Rate Increase.** It is requested that various items of the boards and bureaus within the Department of Consumer Affairs be increased to fund the Attorney General rate increase. The total increase of \$3,597,000 will be distributed to the affected boards and bureaus.
8. **I-Licensing Program.** It is requested that Item 1111-002-0702 be amended to reflect the transfer of activities associated with the I-Licensing system maintenance to the DCA, Office of Information Services. This system, which allows DCA licensees to apply online, is currently operated by the e-Initiatives Office in the Department of General Services (DGS). A related May Revision letter proposes the elimination of this program at DGS. The DCA entities using the system already have sufficient appropriation authority to pay for the costs of this system, therefore this proposal simply amends DCA Administration totals.
9. **Office of Privacy Protection.** \$120,000 (General Fund) reduction, and \$35,000 increase in reimbursement contributions from the DCA boards and bureaus.

ITEM 1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

ISSUE 1: MAY REVISION

The administration proposes in the May Revision to reduce the Fair Employment and Housing's General Fund budget by \$225,000 to reflect the elimination of 2 positions and a reduction of headquarters space.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

ISSUE 1: APRIL 1, 2004 FINANCE LETTER

The Department of Finance has requested in an April 1 Finance Letter the following proposals for the Department of General Services (DGS):

1. \$435,000 (Service Revolving Fund) be augmented to allow the DGS to recover costs for deferred maintenance on the Edmund G. Brown building. Funds were provided within the Public Utilities Commission (PUC) as part of the Governor's Budget in the fall.

Staff Comment: The Subcommittee has already acted on this PUC budget request, approval would conform to prior subcommittee actions.

2. \$4.7 million (Service Revolving Fund) and 28.3 pys be augmented to allow the DGS to operate and maintain the CalTrans District Seven building. Resources to reimburse the DGS are included in a Finance Letter for CalTrans.

Staff Comment: Assembly Budget Subcommittee 5 has already approved the CalTrans Finance Letter requests to reimburse the DGS. Thus, approval of this request would conform to prior subcommittee actions.

3. \$7.4 million (Service Revolving Fund) and 71.4 pys be augmented to allow the DGS to operate and maintain Phase III of the Franchise Tax Board Headquarters. Resources to reimburse the DGS are included in a Finance Letter for the Franchise Tax Board.

Staff Comment: The Subcommittee has already approved the Franchise Tax Board's Finance Letter requests to reimburse the DGS. Thus, approval of this request would conform to prior subcommittee actions.

4. **Seismic Safety Reappropriation:** Item 1760-495 be added to the Budget Bill to provide a reversion schedule for funding authorized by Proposition 122, the Earthquake Safety and Public Building Rehabilitation Bond Fund of 1990. This item would revert up to \$500,000 for one local seismic grant that was reappropriated by Item 1760-492, Budget Act of 2003.

ISSUE 2: MAY REVISION

The Department of Finance has proposed the following in May Revision:

1. **Asset Enhancement.** The Administration is proposing to withdraw their January 10 proposal to augment the Real Estate Services Division enhance and sell surplus property.
2. **E-Government.** \$2.42 million reduction to eliminate budget authority for the eGovernment Initiatives program within DGS. A related proposal would move the funding for a portion of these activities to the Department of Consumer Affairs.
3. **Proposition 55 Workload.** \$777,000 (Service Revolving Fund) augmentation and the addition of 10.0 three-year limited term positions to staff the School Facilities Program for additional workload due to voter approval of Proposition 55.

ITEM 2120 ALCOHOL AND BEVERAGE CONTROL APPEALS BOARD**ISSUE 1: MAY REVISE – GRADUATE ASSISTANT**

The Alcohol Beverage Control Appeals Board has requested in the May Revision an augmentation of \$22,000 from the Alcohol Beverage Control Appeals Fund to provide funding for a Graduate Student Position that was eliminated in the Control Section 4.10 budget reductions. The Appeals Board has indicated that this reductions has impacted its ability to process appeals in a timely manner.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**ISSUE 1: APRIL 1 FINANCE LETTER**

1. **Housing and Emergency Shelter Trust Fund Act of 2002 Staffing.** The department proposes to increase staffing by 4 positions and \$479,000 (plus redirection of 10 positions) to address workload for administration of the Proposition 46 Housing Bond Act. The funds are continuously appropriated.
2. **Office of Migrant Services.** The department requests adoption of Trailer Bill Language authorizing it to spend an additional \$1.4 million of Housing Bond funds to repair, rehabilitate, and replace equipment at the department's migrant housing centers. This change increases from \$4.1 million to \$5.1 million the allocation to the migrant centers from the \$25 million of Bond Funds dedicated to the Joe Sera, Jr. Farmworker Housing Grant Fund.
3. **Transfer of Office of Military Base Retention.** The administration requests a reduction of \$153,000 (General Fund) and 1 position consistent with the transfer of this office to the Business, Transportation and Housing Agency (this issue conforms with an equivalent consent issue for the agency.)

4. **Community Affairs Program Enterprise System (CAPES).** This request is for an increase of \$200,000 (special and bond funds) to develop the CAPES. The information system will integrate project and financial information for both state and federal housing programs.

ISSUE 2: RENTAL RATES FOR MIGRANT CENTERS

This proposal conforms with bipartisan Senate action to adopt Trailer Bill language to limit migrant center rent increases so that rents do not exceed 30 percent of average farmworker household income. This action will not affect the planned \$2/day (about 20 percent) increase planned for July 1, 2004. Trailer bill language adopted with the 2003-04 budget prohibited any rent increase in 2003-04.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS**ISSUE 1: APRIL 1, 2004 FINANCE LETTER**

The Department of Finance has proposed in and April 1, 2004 Finance Letter that item 7350-490 be added to the Budget Bill to provide a reappropriation for Item 7350-001-0001, Budget Act of 2003. This item would reappropriate up to \$960,000 to reflect the revised timetable for the Division of Labor Standards Enforcement's centralized Case Management System

ISSUE 2: MAY REVISION

The Department of Finance has proposed the following in the May Revision:

1. \$92,000 in operating expenses and equipment from the Division of Occupational Health and Safety.
2. \$1.7 million fund shift from the General Fund to Apprenticeship Training Contribution Fund for the Division of Apprenticeship Standards.

ITEM 8940 MILITARY**ISSUE 1: MAY REVISION**

The Administration has proposed a \$214,000 reduction to the Military Retirement program due to a declining population served by the program and a reduction to the California National Guard Youth Programs.

ITEM 8955 DEPARTMENT OF VETERANS' AFFAIRS**ISSUE 1: MAY REVISION**

The Department of Finance has proposed the following in the May Revision:

1. California Department of Veteran Affairs (CDVA) Headquarters, be decreased by \$95,000 to reflect a reduction of two positions.
2. California Veterans Home at Yountville be decreased by 4173,000 to reflect a reduction of three positions.
3. California Veterans Home at Chula Vista be decrease by \$158,000 to reflect a reduction of two positions.

Staff Comments: Four positions (3 at VHC Yountville, 1 at VHC Chula Vista) were originally included in the Governor's budget proposal to be transferred to CDVA Headquarters to provide VHC oversight. This May Revision proposal would leave one position to fulfill the oversight functions at Headquarters.

4. It is also requested that Reimbursements for the Yountville home be decreased by \$2.0 million to more closely reflect estimated Medicare and medi-Cal reimbursement collections, with a corresponding increase in General Fund.

ITEM 1100 AFRICAN AMERICAN MUSEUM**ISSUE 1: APRIL 1, 2004 FINANCE LETTER**

The Department of Finance has requested in and April 1 Finance Letter that Item 1100-001-0001 be amended by reducing Reimbursements by \$1.0 million. This is a technical correction to reflect the completed expenditure of bond funds provided to the African American Museum in the Budget Act of 2000. It is also requested that 3.0 positions eliminated pursuant to Government Code Section 12439 be restored for the California African American Museum.

ITEMS TO BE HEARD

ITEM 0840 STATE CONTROLLER

ISSUE 1: MAY REVISION

The Department of Finance has proposed the following in the May Revision:

Human Resource Management System (HRMS). \$1.46 million increase in reimbursements, Control Section 25.25 be added to appropriate up to \$2.5 million (special funds), and 11.2 one-year limited-term positions be provided for the workload associated with the selection of a software vendor and a systems integrator through two separate procurements, the completion of a business case/benefits study, and the completion of a Special Project Report (SPR).

These changes will provide a total of \$3.98 million to the SCO. The project will replace the SCO's employment history, payroll, leave accounting, and position control systems. Of the additional reimbursement expenditure authority requested, \$426,000 is for the recovery of project costs attributable to federal funds. The SCO estimates gross project costs of \$132.1 million and proposes to finance these costs over ten fiscal years, with special funds paying a total of \$51.6 million between 2004-05 and 2010-11 and the General Fund paying an equivalent amount between 2006-07 and 2012-13. The SCO will absorb \$22.6 million, and \$6.2 million will be funded from additional reimbursements. The SPR, anticipated to be completed in June 2005, will provide an updated project schedule and cost estimates. Subject to the provision of funding and approval of the SPR, contracts are expected to be signed in July 2005. Potential statewide savings will be identified prior to contract award.

ITEM 0845 DEPARTMENT OF INSURANCE

ISSUE 1: SEISMIC SAFETY GRANTS TRAILER BILL

The Assembly acted to adopt proposed trailer bill language to eliminate the Seismic Safety Grants program.

The Senate acted to delete funding and leave skeleton statute that would allow the Legislature to fund the program in the future if it wishes.

Staff Comments: The Senate's action intended to ensure that a skeleton was in place in case there was future interest in funding the program. However, the Department of Finance notes that the program does not currently exist in statute and by eliminating funding for the program the program would cease to exist. Adopting the Senate Trailer Bill Language would in effect have an identical outcome of the original language adopted by the Assembly

ITEM 1760 DEPARTMENT OF GENERAL SERVICES**ISSUE 1: APRIL 1, 2004 FINANCE LETTER**

1. **Local Seismic Grants.** 1760-492 be added to the Budget Bill to provide a reappropriation schedule for funding authorized by proposition 122, the Earthquake Safety and Public Building Rehabilitation Bond Fund of 1990. This item would reappropriate up to \$1.9 million for three local seismic grants that were reappropriated by Item 1760-492, Budget Act of 2003.
2. **Trailer Bill Language.** Trailer Bill language be adopted to reauthorize, on a permanent basis, administrative flexibility regarding printing services. This language is a part of the annually approved Administrative Flexibility Trailer Bill proposed by the Department of Finance.

Staff Comment: Annually, the Department of Finance has submitted this trailer bill language along with other provisions that provide various administrative flexibilities for the DGS necessary for optimizing efficiency and value in services provided. In the 2003-04 budget, excluding the language relating to the Office of State Publishing (OSP), the majority of the administrative flexibility trailer bill was made permanent. This trailer bill language would make permanent provisions that allow the OSP to provide printing services to both state and other public agencies. Also, it proves that all state agencies when soliciting printing must solicit a bid from the OSP when soliciting bids from the private sector or printing projects over \$5,000.

Staff Comments: Staff has been notified of concerns with the language and that interested parties will be working on an agreeable long-term solution for budget year 2005-06.

3. **Budget Bill Language.** The DOF has proposed in the April Finance Letter budget bill language that would reflect additional oversight to the rate-setting process. This proposal responds to concerns raised that DGS had not lowered its service fees as required by the 2003-04 budget.

Staff Comments: Staff is not aware of any concerns with this proposal.

ISSUE 2: MAY REVISION

1. Control Section 4.60. The Administration has proposed that control section 4.60 be amended with the following language to include the ability to adjust any item of appropriation to fund costs associated with debt service, rent, or operations and maintenance of any space occupied by a state entity. This trailer bill language requires that DGS report on the feasibility of assessing a fee on State entities that would be sufficient to fund overhead costs incurred by DGS.

Proposed Budget Bill Changes, Control Section 4.60

~~“SEC. 4.60. Notwithstanding any other provision of law, the Department of Finance shall adjust any item of appropriation in this act, as appropriate, to fund the rent for state office buildings. (a) The Legislature finds and declares that it is in the best interest of the State, in managing state office buildings and in leasing private space, to use procedures that recognize the value of these assets to the State and the people served by the State’s programs. Additionally, costs incurred by State entities for rent, operations and maintenance, debt service, and overhead charges should be assessed to state entities in an equitable manner.~~

~~(b) On or before August 1, 2004, the Department of Finance shall report to the fiscal committees of both houses of the Legislature regarding the feasibility of assessing a surcharge on state departments that allocates overhead costs currently incurred by the Department of General Services, some of which are recovered through building rental rates, to all state entities receiving a benefit from these costs. This report shall also include recommendations regarding the feasibility of using a portfolio methodology to establish state office building rental rates, including the re-allocation of lease revenue debt service payments and operations and maintenance costs associated with state office buildings.~~

~~(c) Not sooner than 30 days after the transmittal of this report, the Director of Finance is authorized to adjust any item of appropriation in this act to effectuate the recommendations or findings included in the report. In addition, the Director of Finance is authorized to transfer between items of appropriation in order to reallocate debt service, if such changes are determined to be consistent with the State’s legal obligation to bond holders.”~~

Staff Comments: Staff is not aware of any concerns with this proposal.

2. Control Section 5.50 Savings Erosion. The Budget Act of 2003-04 required that the Department of General Services renegotiate contracts using entrepreneurial practices with the goal of achieving savings beginning in the current year. Control Section 5.50 also authorized the Department of General Services to use strategic sourcing procurement practices to achieve savings. It was expected that Control Section 5.50 would achieve \$100 million (\$50 million General Fund; \$50 million Other Funds), however, the DOF has recognized that actual achieved savings were \$50 million and have revised savings estimates accordingly.

ISSUE 3: CONTROL SECTION 33.50 - STRATEGIC SOURCING

The Department of Finance has proposed in the May Revision the addition of Control Section 33.50. This requests proposes to save \$96 million (General Fund) through strategic sourcing procurement practices.

LAO Comments. The LAO notes that the proposed control section is very similar to the current year Control Section 5.50 which proposed savings of \$100 million (\$50 million General Fund) resulting from renegotiating existing contracts and leases. The current year savings of \$100 million was never achieved. For that reason, the LAO believes that it is highly unlikely that the administration will achieve the estimated \$96 million savings in budget year. The proposed control section, however, does allow DOF to reduce department appropriations if any savings are achieved. For that reason, the LAO has expressed no concern in adopting the new control section. The LAO further notes that assuming no savings from the control section would be a more realistic projection and would eliminate the likelihood of a future hole in the budget.

ITEM 2100 DEPARTMENT OF ALCOHOL AND BEVERAGE CONTROL**ISSUE 1: TRAILER BILL**

The Administration has proposed trailer bill language that would allow business that are caught selling alcohol to minors twice within a three year period to be allowed to petition the Department to pay a fine in lieu of serving suspension time. Current law only allows one-time offenders to petition to pay fines in lieu of serving suspension time.

Staff Comments: Because changes made by this trailer bill would substantially amend current Alcohol and Beverage Control policy, subcommittee staff feels that it may be more appropriate that this issue be heard in a policy committee rather than the Budget Subcommittee.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**ISSUE 1: REGIONAL HOUSING NEEDS ASSESSMENT MANDATE**

At the Subcommittee's March 30 hearing, the subcommittee heard this issue and took the following initial actions:

1. Augment by \$750,000 (General Fund) to fund the portion of the mandate performed by regional Councils of Governments (COGs).
2. Directed staff to develop Trailer Bill Language to present to the subcommittee to improve cost controls and delete unnecessary mandate components for the city and county portion of the mandate.

BACKGROUND

Mandate for Regional Housing Assessments. Chapter 1143, Statutes of 1980 (AB 2853, Roos), significantly expanded the requirements of local housing elements by requiring additional analysis of local housing needs, particularly in relation to housing by income group. Each community is assigned numeric housing development goals by income (that community's "fair share" of housing) through a process administered by the regional COG.

Chapter 1143 was passed after the constitutional amendment requiring mandate reimbursements for state-required activities. Other portions of the housing element process that were in place prior to Chapter 1143 have not been treated as reimbursable mandates. State reimbursement has been provided for the following expenses:

- **Regional COGs.** Reimbursable costs include expenses related to the administrative costs of distributing the region's total housing goals to individual communities, including public meetings and any necessary revisions.
- **Cities and Counties.** Reimbursable costs include expenses related to reviewing the COGs' allocation and examining a variety of specialized housing factors in their housing element, such as housing availability for the disabled, farmworkers and energy conservation.

STAFF RECOMENDATION

In response to the subcommittee's direction, a working group of staff—including the LAO, DOF, Senate and Assembly budget and housing committee staffs, staff of the Commission on State Mandates, and the department—have held a number of meetings. As a result of these meetings, some new information has come to light.

Existing rules for the housing needs mandate date back to Board of Control decisions that have not been revisited in many years and may now be outdated by further developments in state and federal law, as well as more recent court decisions.

Under existing court rulings, it does not appear that COGs are a type of local entity that is entitled to reimbursement for state mandated costs. Also, COGs appear to have existing fee authority that they can use to cover their costs of preparing housing needs allocations.

Specifically, staff recommends the following actions:

General

- Adopt Trailer Bill Language directing the Commission on State Mandates to revisit the Board of Control decisions for the Regional Housing Needs Assessment Mandate.

COGs

1. Rescind the prior action to augment by \$750,000 and provide only the \$1,000 mandate deferral item for the city and county portion of the mandate.
2. Adopt Trailer Bill Language clarifying that COGs' existing fee authority includes the authority to recover their costs through fee charges to cities and counties. In turn, cities and counties could pass on these costs, if they wish, under their existing planning fee authority.

Cities and Counties

- 1) Adopt Trailer Bill Language as follows:
 - a) Authorize the department to adopt regulations establishing standards of effort for complying with the mandate.
 - b) Clarify that review or appeal of the COG housing allocation data (as opposed to use of the data) is optional.
 - c) Make consideration of energy conservation in the housing plan (but not adherence to energy conservation building standards) optional.

ISSUE 2: ENTERPRISE ZONE PROGRAM STAFFING

In its April 1 Finance Letter, the department requests \$668,000 of fee funding for 6 positions to implement the Enterprise Zone (EZ) Program that was transferred to the department from the former Trade and Commerce Agency by Chapter 593, Statutes of 2003. These positions will carry out monitoring and oversight duties to ensure that the existing EZs continue to meet their statutory requirements and to add up to three more EZs as authorized by SB 46 (Washington) of 2001.

The proposal includes adoption of Trailer Bill Language to authorize the department to charge to fees to local governments based on the certificates that they issue to verify that companies seeking tax benefits within the zones have hired qualifying employees. Local governments, in turn could pass on the fees to the companies that receive the tax benefits (\$70 million in 2001).

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**ISSUE 1: FINANCE LETTER**

The Department of Finance has made the following proposals in an April 1, 2004 Finance Letter:

1. Amend associated provisional budget bill language to specify that the Director of Finance may increase funding for the Employment Training Panel (ETP) if funds are available for allocation. It is also requested that Item 7100-015-0001 be deleted as a conforming action and that reimbursements to Program 50 of Item 7100-001-0870 also be deleted as a conforming action.

Staff Comments: Current provisional language limits the expenditure of \$40 million for ETP until the Director of Finance certifies that funds are available for allocation. This provisional language was originally included to ensure that ETF funds used to provide CalWORKS Federal Fund matching requirement were secure. This proposal corresponds with the following Control Section 6.60 proposal.

2. Control Section 6.60 be added to specify that the Department of Finance shall complete a survey of State departments to determine if, between fiscal years 2003-04 and 2004-05, there are any savings related to workers' compensation costs. Additionally, the control section states that, to the extent that savings are available, those funds shall be transferred to the General Fund. Up to \$40.0 million of those savings may be used to fund the CalWORKs employment services program in lieu of resources from the Employment Training Fund.
3. Item 7100-001-0514 be revised by eliminating Provision 2 of that item, which requires \$2.3 million to be made available for an interagency agreement with the Business, Transportation, and Housing Agency for the Manufacturing Technology Program.
4. Items 5180-101-001 and 5180-101-0514 be revised by adding provisional budget bill language specifying that up to \$40.0 million General Fund may be used to augment the CalWORKs employment services program in lieu of resources appropriated from the Employment Training Fund to the Extent that funds are available pursuant to Control Section 6.60.

ISSUE 2: MAY REVISION**Unemployment Insurance**

1. The DOF is proposing in the May Revision a decrease of \$877.3 million to reflect a projected decrease in UI benefit payments. For technical conformity, it is requested that ITEM 1700-111-0890 also be decreased by \$877.3 million.
2. The DOF is also requesting that Budget Bill language be added to allow the Director of EDD to augment this item for the purpose of making actual interest payments, if necessary, for an Unemployment Insurance Fund loan.

Staff Comments: In a prior hearing, EDD testified that it expected to provide a legislative solution to the on-going UI solvency issues within the year. Because the May Revision proposal stands absent a comprehensive legislative solution, the department should be prepared to comment on when the legislature should expect to see this comprehensive UI legislative solution.

Disability Insurance (DI) Program and Benefit Adjustments

3. \$1.69 million reduction and 26.3 personnel years to reflect an adjustment due to revised workload estimates for EDD.
4. \$512,000 reduction and 5.4 personnel years to reflect an adjustment due to revised workload estimates for the California Unemployment Insurance Appeals Board.
5. \$45.18 million reduction to reflect a projected decrease in DI benefit payments

School Employees Fund (SEF) Adjustments

3. An increase of \$45.18 million (SEF) to reflect a projected increase in benefit payments.

ISSUE 3: WORKFORCE INVESTMENT ACT

The Department of Finance has proposed the following in the May Revision:

Consolidated Workers Program. An augmentation of \$2.0 million to reflect an increase in state operations and an increase of \$1.6 million to reflect an increase for local assistance for the Consolidated Workers Program.

Workforce Investment Act Discretionary Funds. Budget Bill Language be added to Item 7100-001-0869 to schedule WIA program information in the Budget. The proposed language would also authorize the Secretary of Labor and Workforce Development Agency to transfer funds between program schedules as needed.

Staff Comments: In the March 30, 2004 hearing, the subcommittee acted to deny expenditure authority for the Workforce Investment Act discretionary funds because of concerns that the Governor's budget did not include an expenditure plan for the funds. It is the understanding of staff that the LAO feels that its concerns have been addressed and any additional concerns can be addressed in the following budget years. The May Revision addresses this issue by scheduling the expenditure plan in the budget as follows:

Item 7100-001-0869—For support of state programs under the Workforce Investment Act (WIA), Employment Development Department, payable from the Consolidated Work Program Fund.....~~152,862,000~~ 154,850,000

Schedule:

(1) 61 Workforce Investment Act (WIA) Program.....	107,862,000
(2) 62 National Emergency Grant Program.....	45,000,000
(3) 61.10 WIA Administration.....	1,400,000
(4) 61.20 WIA Program Support.....	15,400,000
(5) 61.30 WIA Local Program Services.....	8,900,000
(6) 61.40 WIA Growth Industries.....	1,200,000
(7) 61.50 WIA Industries with a Statewide Need.....	16,850,000
(8) 61.60 WIA Removing Barriers for Special Needs Populations....	20,500,000
(9) 61.70 WIA Rapid Response Activities.....	45,600,000
(10) 62.10 National Emergency Grant Program.....	45,000,000

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 1: APRIL 1, 2004 FINANCE LETTER

The Department of Finance has requested in the May Revision that Item 7350-001-0223 be increased by \$20,106,000 and 174.3 personnel years, and that Item 7350-001-0001 be amended to reflect this change. It is also requested that these items be revised by the addition of provisional budget bill language. The increase in funding and personnel years would provide for the implementation of reforms to the workers' compensation system resulting primarily from the passage of Chapters 635 and 639, Statutes of 2003. The addition of provisional budget bill language would restrict availability of funds for the development of a workers' compensation case management system until a feasibility study is approved and would allow the Director of Finance to augment this item by up to 10 percent to facilitate the implementation of Chapter 34, Statutes of 2004.

It is also requested that Item 7350-490 be added to reappropriate from Item 7350-001-0001, Budget Act of 2003 (Ch. 157, Stats. 2003), Program 30, Workers' Compensation Administration, up to \$350,000 to allow the Department of Industrial Relations (DIR) and the Commission on Health and Safety and Workers' Compensation to contract with the RAND Corporation to complete a medical study and up to \$300,000 to allow DIR to complete a physical education and training study, both required by Chapter 6, Statutes of 2002.

ITEM 8620 FAIR POLITICAL PRACTICES COMMISSION

ISSUE 1: PROPOSED REDUCTIONS

The Governor's budget proposes an \$809,000 reduction to the FPPC's non-statutory funding. This cut follows a \$363,000 reduction in the Commission's non-statutory funding in the fiscal year.

In the current fiscal year, the FPPC has a total budget of approximately \$6.5 million, of which \$3.8 million is from statutory funding approved by the voters in Propositions 9 (of the March 1974 statewide ballot) and 34 (of the November 2000 statewide ballot). Pursuant to the terms of those initiatives, a reduction of those amounts would require voter approval.

Staff comments: This proposal will have a significant impact upon non-statutory functions of the FPPC. The FPPC has raised the concern that they are being faced with a disproportionate level of funding reductions when compared to other state departments. In response, the FPPC has proposed a reduction level of \$500,000.

ITEM 8780 MILTON MARKS "LITTLE HOOVER" COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

ISSUE 1: MAY REVISION RESTORATION REQUEST

The Department of Finance is requesting an augmentation of \$118,000 (General Fund) in 2004-05 to restore a reduction made to the commission's budget under Control Section 4.10 in the current year. The commission has reduced the time base of its staff to absorb this reduction. However, the administration anticipates that the commission will have increased workload in 2004-05 to perform statutorily mandated reviews of reorganization plans proposed by the California Performance Review.

The subcommittee first heard this issue on March 30 and held it open at that time.

ITEM 8955 DEPARTMENT OF VETERANS' AFFAIRS**ISSUE 1: MORALE, WELFARE, AND RECREATION FUND**

The Governor's Budget proposes to redirect \$1.35 million from the Morale, Welfare, and Recreation Fund (funds collected from members' estates) to the General Fund to cover a portion of the state's costs.

CDVA depends on various funding sources to operate each home and to provide for member's needs of healthcare, food, activities and shelter. A portion of funding for these services comes from the General Fund; a portion comes from the Federal Trust Fund (VA Per Diem) and Reimbursements, (which includes Medicare, Medi-cal and private insurance carriers.). Upon admission into a Home, a veteran and/or their spouse are assessed charges for each day of care that they receive. These costs of care can vary greatly depending on the level of service they receive. Collections for these services are then received by the Home from Member Fees, Federal VA Per Diem, Medicare, Medi-Cal and private insurance companies. If upon the passing of a resident, the home makes the assessment that collections did not fully cover the total cost of care the member received, the remaining balance would be considered an "Unreimbursed Cost of Care".

Under this proposal, the home would be given statutory authority to attempt to recover unreimbursed costs from the member's estates and transfer-recovered funds to the Home's General Fund support budget.

Staff Comments: The Subcommittee approved this proposal in the March 23, 2004 Subcommittee hearing. Since that time, staff has been approached by Allied Council, which represents the interests VHC residents, with concerns that this proposal will severely affect the funding of everyday recreational activities for VHC residents.