

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

TUESDAY, APRIL 22, 2003
STATE CAPITOL, ROOM 437
1:30 PM

CONSENT CALENDAR

ITEM	DESCRIPTION
7120	CALIFORNIA WORKFORCE INVESTMENT BOARD
7300	AGRICULTURAL LABOR RELATIONS BOARD

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0559 SECRETARY OF LABOR AND WORKFORCE DEVELOPMENT AGENCY

On July 2, 2002, pursuant to the Governor's Reorganization Plan Number 1, the new Labor and Workforce Development Agency was created to bring together the departments, boards and commissions that train, protect and provide benefits such as unemployment insurance and workers' compensation. The roles and responsibilities of the agency are codified in Chapter 859, Statutes of 2002 (SB 1236, Alarcon). The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

ISSUE 1: REPORT ON FIRST YEAR OF OPERATION

In 2002, the Governor submitted a reorganization plan to the Legislature that proposed the creation of a cabinet-level agency that would consolidate the state's labor and employment-related programs. Under Chapter 859, several goals for the new agency were identified. These goals include:

- Achieving cost efficiencies.
- Matching worker-training programs with regional labor market needs.
- Improving accountability for programs to meet the needs of the state's workforce investment system.

The agency should report to the subcommittee on its successes in reaching these goals.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is responsible for administering the Employment and Employment Related Services (EERS), the Unemployment Insurance (UI), and the Disability Insurance (DI) programs. The EERS program (1) refers qualified applicants to potential employers; (2) places job-ready applicants in jobs; and (3) helps youth, welfare recipients, and economically disadvantaged persons find jobs or prepare themselves for employment by participating in employment and training programs. Pursuant to Chapter 859, Statutes of 2002 (SB 1236, Alarcón), which implemented the Governor's Reorganization Plan Number 1, EDD is part of the new Labor and Workforce Development Agency.

In addition, the department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their UI contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholding. In addition, it pays UI and DI benefits to eligible claimants.

As shown in the following table, the 2003-04 Governor's Budget proposes expenditures totaling \$10.6 billion from all funds for support of EDD in 2003-04. The budget also proposes \$21.6 million from the General Fund (GF) in 2003-04, which is a reduction of \$1.3 million (5.9 percent) compared to the current year.

Summary of Expenditures			
(Dollars in thousands)	2002-03	2003-04	\$ Change
General Fund	22,898	21,550	1,348
Benefit Audit Fund	0	0	0
EDD Contingent Fund	18,751	17,888	-\$863
Employment training Fund	83,867	75,313	-\$8554
Welfare to Work Fund – Federal	3,608	0	-\$3,608
Disability Fund	3,472,701	3,590,935	\$118,234
Consolidation Work Program Fund	631,931	582,166	-\$49,765
Unemployment Administration - Federal	618,659	602,316	-\$16,343
Unemployment Fund – Federal	7,998,753	5,662,509	-\$2,336,244
School Employees Fund	84,416	57,560	-\$26,856
Reimbursements	24,928	25,040	\$112
Totals	12,960,512	10,635,277	-\$2,325,235

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**ISSUE 1: WORKFORCE INVESTMENT ACT DISCRETIONARY FUNDS****BACKGROUND**

The federal Workforce Investment Act (WIA) replaced the Job Training Partnership Act July 1, 2000. Funding for the WIA in 2003–04 is provided through three programs: Adult Employment and Training, Youth Activities, and Dislocated Workers Employment and Training. Adult funds provide universal core services to all adults, plus training and other services to economically disadvantaged adults facing serious barriers to employment. Youth funds provide economically disadvantaged youth with training and other services to help them gain the skills necessary to obtain unsubsidized employment, completion of secondary or post-secondary education, entrance to military service or qualified apprenticeship. Dislocated Worker funds provide rapid response services to workers affected by plant closures and layoffs, and provide training and other services to dislocated workers. In addition, the WIA allows the Governor to reserve up to 15 percent for discretionary projects that support statewide workforce investment activities.

GOVERNOR'S PROPOSAL

The following table outlines the Governor's Budget proposed use for discretionary WIA funds:

Workforce Investment Act State Discretionary Funds 2003-04 Proposed Expenditures	
(In Millions)	
Category	Amount
Administration	
Employment Development Department	\$1.6
California Workforce Investment Board	0.7
Subtotal	(\$2.3)
Federally Required WIA Activities	\$25.5
EDD Local Program Services	\$11.7
Proposed Programs	
· Nurses Workforce Initiative	\$20.0
· Preventing Parolee Crime Program	10.6
· Los Angeles County Work Plan for Worker Retraining	8.0
· Governor's Award for Veteran's grants	6.0
· Community and Faith-Based Initiative	4.0
· Female Offenders Treatment and Employment Program	2.0
· Veterans/Disabled Veterans Employment Services	1.5
· Department of Education WIA Coordination/Program	
Integration	0.3
· Community Colleges WIA Coordination/Program Integration	0.3
Subtotal	(\$52.7)
Total proposed expenditures	\$92.2

^a Includes incentive grants, technical assistance grants, assistance to locals for eligible youth, fiscal and management information system needs, eligible training provider list, program improvement activities, and One-Stop system operating needs.

(Source: LAO 2003-04 Budget Analysis)

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

(Continued)

COMMENTS

Of the federal WIA funds received by the state, 15 percent are allocated as "discretionary." Traditionally, these funds have been allocated by the administration throughout the state to work training programs. The LAO has raised the concern that WIA funds should be considered "state" rather than "Governor's" discretionary funds. Although federal law and the Governor's Budget refer to these funds as Governor's discretionary funds, it is misleading because section 191 of the WIA states that all WIA funds "shall be subject to appropriation by the State Legislature." Accordingly, the LAO suggests that the Legislature review the Governor's WIA expenditure plan to ensure its consistency with legislative priorities.

The Department should respond to the amount of WIA discretionary funding allocated for state services. What portion is spent for local services?

**ISSUE 2: UNEMPLOYMENT INSURANCE CALL CENTERS
DISABILITY INSURANCE CALL CENTERS**

In the late 1990s, California shifted from a system of local offices for the in-person delivery of Unemployment Insurance and Disability Insurance benefits to a statewide system, which used telephone call centers and mail delivery to administer benefits. It was reported to the subcommittee last year that problems - such as lengthy waiting times during busy periods, thousands of callers receiving busy signals or being asked to call again - were having a significant impact on their ability to provide services.

The Department should report back to the Legislature on the current status of the call centers and any and all steps that have been taken to improve their performance.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**ISSUE 3: EMPLOYMENT TRAINING PANEL (ETP)**

The Employment Training Panel (ETP) is an ongoing statewide economic development program that supports the California economy by ensuring that employers, primarily small businesses, have the trained workers they need to compete in the global economy while providing workers with reasonable wages and secure employment. The ETP is funded through the Employment Training Fund (ETF), which generates revenues by receiving 0.1 percent of wages (cap of \$7 per year per employee).

Training for workers is provided for three purposes: (1) to retain current employees of firms facing out-of-state competition; (2) to train new hires who are Unemployment Insurance recipients or who have exhausted their UI benefits within the previous 24 months; and (3) to train in areas of high unemployment, with an emphasis in the working poor.

The ETP is governed by an eight-member Employment Training panel – seven of which are appointed by the Governor and the Legislature with the eighth being a designee by the secretary of the Trade and Commerce Agency.

ETF Funds Transferred to Cal WORKS

For several years, funds have been transferred from the ETF to Cal WORKS as part of the state's Maintenance of Effort for Welfare Reform. The current year budget appropriates \$30 million for this effort with \$21.4 million being proposed for 2003-04. Of this funding, \$2.9 million is allocated to EDD for the State and Local Labor Markets Information Program, \$4.8 million is allocated to EDD for collection of employment training tax, and \$2.9 million is allocated to DIR for administrative support for the Division of Apprenticeship Standards.

Access for Agricultural Labor

Because most ETP eligibility requirements are created to attract employers with high wage and long-term employees, many seasonal agricultural employers have difficulties meeting ETP eligibility requirements.

The ETP should report to the subcommittee on accessibility for both seasonal and long-term agricultural employment training

7350 DEPARTMENT OF INDUSTRIAL RELATIONS**ISSUE 1: 100 PERCENT USER FUNDED WORKERS' COMPENSATION FUNDING**

The Governor's Budget proposes to revise the Department of Industrial Relations' Division of Workers' Compensation funding from 80 percent GF, 20 percent Workers' Compensation Administrative Revolving Fund (WCARF) to 100 percent WCARF User Funding.

This shift would result in GF savings for the 2003-04 Fiscal Year of \$73.693 million.

BACKGROUND

The Division of Workers' Compensation (DWC) was created by the Legislature to oversee the administration of workers' compensation benefits to approximately 1 million Californians injured on the job each year. One of DWC's primary responsibilities is the administration of California's exclusive judicial system responsible for resolving workers' compensation claims. Currently the DWC operates 25 statewide workers' compensation courts.

The DWC is currently funded with 80 percent GF and 20 percent WCARF user funding. The proposal would increase the WCARF funding to 100 percent. Revenue to fund this program would be generated from fees charged on employers' workers' compensation insurance policies.

COMMENTS

This proposal provides a savings of \$73.693 million GF. If the subcommittee decides to deny any part or the entire proposal, a subsequent augmentation in GF support will be necessary.

DIR should address the following issues:

- How will the employer be affected by this shift in funding?
- What are the alternatives to this fund shift?

How will programs be affected by failure to pass this fund shift?

7350 DEPARTMENT OF INDUSTRIAL RELATIONS**ISSUE 2: IMPLEMENTATION OF AB 749**

The Department of Industrial Relations (DIR) is requesting an augmentation of \$9.252 million and 72.0 positions in order to fund the implementation and ongoing mandates included in Assembly Bill 749 (Calderon). This request corresponds with the legislative intent that DIR enact reforms in the administration of the workers' compensation system.

BACKGROUND

Chapter 6, statutes of 2002 (AB 749) increased disability benefit payments effective January 1, 2003 and adopted changes intended to reduce workers' compensation system costs. In the 2002-03 Budget Act, the Legislature augmented the department's budget by \$6.9 million and 62 positions to implement this act. The Governor vetoed all but \$1 million for workers' compensation fraud activities.

In the mid-year reductions, Chapter 6 was suspended on a one-time basis to address GF shortfall.

The 2003-04 Budget proposes \$9.3 million and 72 positions to implement provisions of Chapter 6. The LAO cites that this request appears to be consistent with the provisions but includes an augmentation of approximately \$2.4 million in consultant contracts for largely one-time activities required by Chapter 6.

LAO RECOMMENDATION

The LAO has stated that while the proposal is fairly consistent with Chapter 6, there are new activities that do not justify the entire request. Specifically, the chart on the following page outlines both the budget proposal and the LAO recommended proposal.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

(continued)

Proposal to Implement Workers' Compensation Package ^a
(Dollars in Thousands)

	Proposed		LAO Recommendation	
	Positions	Amount	Positions	Amount
Division of Workers' Compensation				
Eight additional "judge teams"	29.0	\$2,509	29.0	\$2,509
Audit and enforcement unit	14.0	1,265	14.0	1,265
Court administrator	6.0	616	6.0	616
Vocational rehabilitation workload	6.0		6.0	510 ^b
Disability evaluations workload	4.5	330	4.5	330
Certification of additional health plans to provide workers' compensation-related treatment	3.5	301	3.5	301
Legal unit rulemaking and litigation workload	3.0	354	3.0	354
Establish medical unit to direct new medical-related responsibilities	1.0	208	1.0	208
Research unit analysis	1.0	101	1.0	101
Annual workers' compensation fraud notice ^c	—	377	—	377
Various contracts and one-time requests	—	1,454	—	1,400
Subtotals	(68.0)	(\$8,025)	(68.0)	(\$7,971)
Commission on Health and Safety and Workers' Compensation				
Education and training program for worker safety and health	2.0	\$1,060	1.0	\$857 ^d
Oversight of loss control services provided by insurance companies	2.0	137	1.0	91
Consultation with DWC on specified projects	—	30	—	—
Subtotals	(4.0)	(\$1,227)	(2.0)	(\$948)
Totals	72.0	\$9,252	70.0	\$8,919

^a Includes proportional allocation of funding for requested operating expenditures and equipment.^b LAO recommends approval on a two-year limited-term basis.^c Reimbursement from Fraud Assessment Commission.^d LAO recommends approval of \$749,000 in contract funds on a one-time basis.

(Source: LAO 2003-04 Budget Bill Analysis)

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

(continued)

The LAO is recommending that the Legislature approve \$510,000 and six positions for anticipated vocational rehabilitation workload on a two-year limited-term basis. For other activities required by Chapter 6, the LAO further recommends the (1) deletion of \$333,000 and two positions for absorbable or uncertain workload; and (2) approval of \$749,000 in contract funds on a one-time basis. (Reduce Item 7350-001-3030 by \$249,000 and Item 7350-001-0223 by \$84,000.)

In addition, if the Legislature would like to further limit the cost of this proposal in response to the state's fiscal condition, the LAO is providing the option of: \$3 million in additional savings (beyond the above recommendations) that could be achieved by deferring some requests to see if anticipated workload materializes; and by relying on existing fraud and workplace safety programs.

These proposals include:

Deferring proposals for vocational rehabilitation, disability evaluations and certification of health plans to provide workers' compensation-related treatment – \$1.1 million and 14 positions in savings.

Deferring implementation of fraud initiatives and the education and training program – \$1.9 million and one position is possible.

Additional savings accruing to employer, insurance company and health plan fee/assessment funds resulting from the shift to 100 percent user funding - \$2.2 million GF and \$0.8 million assessment funds savings.

COMMENTS

The department should respond to the following LAO recommendations:

- Approval of \$510,000 and six positions for anticipated vocational rehabilitation workload on a two-year limited term basis.
- Deletion of \$333,000 and two positions for absorbable or uncertain workload.
- Approval of \$749,000 in contract funds on a one-time basis.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 3: APRIL 1 FINANCE LETTER: ELEVATOR SAFETY INSPECTIONS

DIR has submitted a Finance Letter requesting an increase of \$3,373,000 to provide additional resources and 37.0 positions for the Division of Occupational Safety and health to reduce the backlog of elevators currently operating with expired inspection certificates and to address new inspections workload.

**ISSUE 4: APRIL 1 FINANCE LETTER:
REVISED CONTRIBUTION TO LABOR AGENCY**

DIR has submitted a finance letter requesting an augmentation of \$721,000 to reflect a technical revision necessary to provide funding for the Labor and Workforce Development Agency. These Federal Funds will be provided as reimbursements in the Agency's budget. A separate Finance Letter reducing the Agency's federal fund appropriation and increasing reimbursements is also being transmitted.

ITEM 9620: PAYMENT OF INTEREST ON GENERAL FUND LOANS**General Fund**

(Millions)

<u>ACTUAL</u> <u>2001-02</u>	<u>ESTIMATED</u> <u>2002-03</u>	<u>PROPOSED</u> <u>2003-04</u>	<u>PROPOSED CHANGE</u>	
			<u>AMOUNT</u>	<u>PERCENT</u>
\$109.2	\$241.5	\$191.2	-\$50.2	-20.8%

This portion of the budget accounts for GF interest costs for short-term, cash-flow borrowing. The Budget Bill appropriates \$30 million for interest payments on *internal* borrowing from special funds within the State Treasury. Costs for *external* borrowing on the open market (by issuing Revenue Anticipation Notes, RANs, or Revenue Anticipation Warrants, RAWs) are continuously appropriated.

Cash-flow borrowing (whether internal or external) has no effect on revenues or expenditures as shown in the budget, other than the interest costs shown in this item. In addition, the 2003-04 Budget included about \$1.7 billion of budgeted loans to the GF from various special funds. These are somewhat longer-term loans that are included in GF resources as shown in the budget. The 2003-04 Governor's Budget proposes a new GF appropriation of \$1.205 million for interest payments for these budgetary special fund loans.

The item also includes language allowing the Director of Finance to augment the amounts for internal borrowing or for the cost of issuing RAWs, including any credit enhancements, subject to legislative notification.

ISSUE 1: CHANGE LIKELY IN MAY REVISION**BACKGROUND**

The Governor's Budget for 2003-04 assumes \$30 million of interest costs for internal borrowing, \$1.2 million for interest on budgetary special fund loans, and \$160 million for interest costs on external borrowing. This amount was based on an assumption of \$5 billion of external borrowing in 2003-04, compared with \$12.5 billion in the current year.

COMMENTS

The State Controller recently has indicated that he plans to issue up to \$11 billion of RAWs that will extend into 2003-04 in order to meet the state's cash needs. As a result, borrowing costs are likely to increase.

The Department of Finance will reevaluate the state's borrowing needs and estimated interest costs for the May Revision.

ITEM 9650: HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

General Fund
(Millions)

ACTUAL 2001-02	ESTIMATED 2002-03	PROPOSED 2003-04	PROPOSED CHANGE	
			AMOUNT	PERCENT
\$457.6	\$576.6	\$660.5	\$83.9	14.6%

This appropriation provides for the state's contribution toward health and dental insurance premiums for annuitants of the Judges', Legislators', District Agricultural Employees', and California Public Employees' Retirement System (CalPERS), as well as specified annuitants of the State Teachers' Retirement System (STRS). The program provides annuitants the option of selecting from available state-approved health plans (depending on where an annuitant lives).

The state's contribution for individuals is the average premium for the four most popular plans. For couples and families, the state also contributes 90 percent of the additional cost over the single premium contribution (based on the average of the four plans). The budget requests \$660.5 million GF for these contributions in 2003-04. This amount is \$83.9 million above current-year estimated spending, based on estimated premium increases through calendar 2003 and projected growth in the number of retirees. The GF subsequently recovers about one-third of this cost through pro-rata charges to special funds.

ISSUE 1: 2004 HEALTH PREMIUMS TO BE SET BY CALPERS

The CalPERS Board is in the process of approving new health plan premiums that will become effective on January 1, 2004. The Legislative Analyst has withheld recommendation on this item pending release of the new 2004 premium rates.

COMMENTS

The Department of Finance should report on the status of the CalPERS rate-setting process and any implications for the budget.

ISSUE 2: WHAT CAN BE DONE TO SLOW COST INCREASES?

The cost of health and dental benefits for annuitants will increase 44 percent over the two-year period from 2001-02 through 2003-04, and possibly by more, depending on the new 2004 premiums. Clearly, this rate of cost increase is not sustainable.

COMMENTS

The Department of Finance and Legislative Analyst should respond to the following questions:

- What are the factors driving the high rate of cost increase for this program?

- What can the Administration and CalPERS do to keep cost down in 2003-04 and the next few years while still providing quality health and dental care for retirees? What is being done currently?

ITEM 9800: AUGMENTATION FOR EMPLOYEE COMPENSATION

(Millions)

	<u>ACTUAL</u> <u>2001-02</u>	<u>ESTIMATED</u> <u>2002-03</u>	<u>PROPOSED</u> <u>2003-04</u>	<u>PROPOSED CHANGE</u>	
				<u>AMOUNT</u>	<u>PERCENT</u>
General Fund	\$71.4	\$184.5	\$11.1	-\$173.4	-94%
Other funds	33.7	114.6	0.8	-113.8	-99%

Note: Amounts for 2001-02 and 2002-03 have been allocated to individual departmental budgets.

The budget for this item provides funding for changes in the compensation of state employees due to statutory or collective bargaining reasons. Funding appropriated in this item is generally allocated to the individual department's budget through an executive order. In the Governor's Budget this item proposes an appropriation of \$12 million in the budget year. This is comprised of minor adjustments of salary under special circumstances and the increased overtime payments for some employees.

BACKGROUND

Under the current collective bargaining contracts for most state employees, employee contributions for retirement were reduced in 2001-02 and eliminated for 2002-03 to increase workers' take-home pay without increasing state costs. Beginning in 2003-04, employee retirement contributions will be restored. Consequently, in most collective bargaining unit agreements, state employees are scheduled to receive a 5 percent salary increase effective July 1, 2003. This increase would offset the costs to employees of the reinstatement of the retirement contributions. The Legislative Analyst estimates this salary increase will total \$532 million (\$307 million GF) in 2003-04. This amount includes raises for represented employees and those managers, supervisors and executive employees not represented by collective bargaining agreements.

ISSUE 1: SAVINGS ASSUMED IN THE 2003-04 BUDGET

The Governor's Budget proposes specific program reductions that eliminate a total of approximately 1,900 positions throughout the budget. In addition to these program-specific savings, the budget includes the following budget-wide GF savings assumptions for employee compensation costs:

- **General Salary Increase (\$307 million).** The budget does not include funds for the scheduled July employee salary increase. The Administration issued Budget Letter 03-06 reaffirming this position by stating that departmental budgets would not be augmented for this General Salary Increase.
- **Unallocated Reduction (\$65.9 million).** Budget totals also include an unallocated reduction of \$65.9 million to GF employee compensation costs.
- **No Funding for Health Benefit Cost Increases.** The budget does not include any funding for additional state contributions to employee health benefit cost increases. To the extent that plan premiums negotiated by the Public Employees Retirement System

for 2004 increase over their current amounts, those increases would have to be paid entirely by employees or funded from additional program reductions.

Backup Plan for 10-Percent Cuts. The Administration proposes to achieve these reductions through agreements with collective bargaining units to make personal services expenditure reductions in salaries, benefits, or working hours. In an April 1, 2003 letter, the Departments of Finance and the Personnel Administration directed state departments to prepare a plan to reduce personal services budgets by 10 percent for the 2003-04 in the event that other reductions to employee salary, benefits, or working hours are not achieved.

COMMENTS

The subcommittee may wish to question the Administration regarding the following:

- The status of negotiations with collective bargaining units to achieve the budgeted savings.
- The framework for development of the 10 percent cut plans and the potential savings.

ITEM 9840: AUGMENTATION FOR CONTINGENCIES FOR EMERGENCIES

(Millions)

	<u>ACTUAL</u> <u>2001-02</u>	<u>ESTIMATED</u> <u>2002-03</u>	<u>PROPOSED</u> <u>2003-04</u>	<u>PROPOSED CHANGE</u>	
				<u>AMOUNT</u>	<u>PERCENT</u>
General Fund	--	\$2.0	\$2.0	--	--
Other funds	--	3.0	3.0	--	--

BACKGROUND

Control Section 27.00 of the Budget Bill authorizes the Director of Finance to approve deficiency or emergency spending requests, subject to legislative notification. Deficiency spending is limited to "cases of actual necessity" for unanticipated expenses for the operation of existing programs. Emergency spending is limited to conditions of disaster or extreme peril. These special spending authorizations allow departments to spend at a rate which would result in a deficiency – that is, the additional spending would exhaust their existing appropriations before the end of the fiscal year.

The Budget Act annually provides nominal appropriations for unforeseen contingencies or emergencies. The Budget Bill includes \$2 million GF and \$3 million from special funds for these items in 2003-04. The Department of Finance allocates amounts as required. Because the amounts provided in the Budget Act are nominal, the Department of Finance annually sponsors a deficiency bill to provide the additional funding needed to backfill deficiency spending. The Budget Bill also includes \$2.5 million GF loan authority to meet the needs of programs which would be curtailed due to delayed receipt of reimbursements, revenues or other financing.

No amount is shown in this item for 2001-02 because all deficiency spending for the past year has been allocated to the individual departments and programs that incurred the deficiencies.

COMMENTS

For 2002-03, the Department of Finance has approved GF deficiency requests totaling \$1.1 billion, as of the January Governor's Budget. These amounts are reflected in the budgets of the specific programs and departments that are incurring the deficiencies.

- The Department of Finance should update the subcommittee on the current amount of approved deficiencies.