AGENDA
ASSEMBLY BUDGET SUBCOMMITTE NO. 4 ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

THURSDAY, JANUARY 16, 2003
STATE CAPITOL, ROOM 4202
UPON ADJOURNMENT OF SESSION

CONSENT CALENDAR

ITEM	DESCRIPTION
	SEE HANDOUT

ITEMS TO BE HEARD

ITEM	DESCRIPTION	PAGE
5460	DEPARTMENT OF YOUTH AUTHORITY	2
PROPOSAL 1	YOUTH CORRECTIONAL FACILITIES	2
5240	DEPARTMENT OF CORRECTONS	3
PROPOSAL 1	DELANO II PRISON	3
0250	JUDICIARY	4
0450	TRIAL COURT FUNDING	
PROPOSAL 1	UNALLOCATED REDUCTION TO THE JUDICIARY AND TRIAL COURTS	4
8380	DEPARTMENT OF PERSONNEL ADMINISTRATION	5
PROPOSAL 1	GOLDEN HANDSHAKE	5
1920	STATE TEACHERS' RETIREMENT SYSTEM (STRS)	7
PROPOSAL 1	SUPPLEMENTAL BENEFIT MAINTENANCE ACCOUNT (SBMA)	7
2240	DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT	8
PROPOSAL 1	LOANS TO THE GENERAL FUND	8

5460 DEPARTMENT OF YOUTH AUTHORITY

PROPOSAL 1: YOUTH CORRECTIONAL FACILITIES

Closure of Department of Youth Authority correctional facilities to address declining ward population.

BACKGROUND

AB 3000, (Chapter 1124, Statutes of 2002) required the Department of Youth Authority to close at least one youth correctional facility no later than June 30, 2004 and to submit a written plan for the closure of 3 additional facilities to the Legislature by November 1, 2002. This report has not been received by the Assembly Budget Committee.

COMMENTS

If it is assumed that the full year savings from the closure of a juvenile facility would range from $3.4 million to $8 million annually, the savings from the closure of two facilities could result in annual savings of $6.8 to $16 million a year. Initial savings associated with a closure of a facility would be mitigated due to relocation costs. As a result, in order to maximize savings in the budget year, the closure process should begin as soon as possible in the current year.

5240 DEPARTMENT OF CORRECTIONS

PROPOSAL 1: DELANO II PRISON

Delay the construction of the Delano II prison for 12 months.

BACKGROUND:

The Department of Corrections (CDC) is currently engaged in the construction phase of the Delano II prison which is estimated to be completed in April 2004. A proposal to suspend construction for 12 months would place existing contracts in jeopardy. According to CDC all major construction contracts have been signed and any intentional delay on the part of the state could be considered a breach of these agreements making the department liable for damages up to the amount of the contract. This could potentially place the state in a position that would require payment for the prison that is not built. In addition, under this scenario the construction would not occur, it is unlikely a bond could be used as a financing instrument for these costs.

An alternative the subcommittee may want to consider would be for the state to complete the construction of the prison and suspend the occupancy of this institution. This option would save $10 million in operation costs in 2003-04 assuming an April 2004 completion date.

0250 JUDICIARY
0450 TRIAL COURT FUNDING

PROPOSAL 1: UNALLOCATED REDUCTION TO THE JUDICIARY AND TRIAL COURTS

As part of the Mid-Year Spending Reduction Proposal the Administration proposes unallocated reductions for the Judiciary of $10 million in the current year and $29 million in the budget year. A reduction of $50 million in the current year and $200 million in the budget year is proposed for the State Trial Courts. The Governor's Budget amended the unallocated savings amounts for the Judiciary to $8.5 million in 2002-03 and $17.7 million in 2003-04. The proposed savings for the Trial Courts were similarly amend to seek $36 million in savings in the current year and $ 116 million in the budget year.

BACKGROUND:

In 2002-03 the Budget Act imposed a reduction upon the Trial Courts of $154 million. This was subsequent to an adjustment of $38 million in 2001-02. The Administration proposes unallocated reductions in the current and budget year for the courts totaling $178 million.

In order to address the budget reductions, the courts have imposed a number of directives in order to meet their fiscal targets. These include a mandatory 90-day vacancy period after an employee leaves a position and a compaction of salary schedules. Further, the Judicial Council has indicated that some courts have reduced hours of service.

8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

PROPOSAL 1: GOLDEN HANDSHAKE

Consideration to have the state's agencies offer incentives to retiring employees. This proposal designed to encourage employees to retire which in turn would offset the need for layoffs of state employees as a result of program reductions.

BACKGROUND

The Governor's Budget estimates that the state will experience a budget shortfall of $34.6 billion between now and the end of June 30,2004 unless adjustments are made in the form of decreased expenditures, deferrals, transfers or revenue enhancements are made. The Administration has proposed a number of program reductions in the current and budget year to address the shortfall. While the actual number of state employees that will be subject to layoff off as a result of the program reductions ultimately adopted by the 2003 Budget Act is not known, the Department of Personnel Administration, in its 2003-04 Budget Change Proposal has requested sufficient staffing to address as many as 10,000 layoffs in the budget year. In addition to the impact on service levels and the effect on employee morale, the implementation of layoffs pose a challenge to the state as the process can take a relatively long period of time. During discussions before this subcommittee last year CDC estimated the closure of an institution could take a minimum of 6 to 12 months if layoffs were involved.

Active State employees have the option to retire from state service after meeting age and service requirements specified by the state. The amount to be received by the retiring employee is dependent upon a number of factors, primarily age, years of service and highest salary rate achieved by the employee.

As part of the 2002-03 Budget, AB 593 (Chapter 1023, Statutes of 2002) added Control Section 3.91 to the Budget Act which authorized a golden handshake plan that would give retiring employees an additional 2 years of service credit for pension calculations purposes. Participation in this plan is voluntary by the departments and was expected to save $285 million of the General Fund. Many departments were not able to meet these savings requirements and elected not to participate in this program. As a result, the savings to the State from the golden handshake program are negligible in the current year.

COMMENTS

For 2003 –04, program reductions proposed by the Administration are expected to result in an undetermined number of layoffs of state employees. The subcommittee may want to ask the Department of Personnel Administration to respond to the following :

- Why there was very little participation in the golden handshake program in 2002-03, .
- Comment whether the state would be able to reduce its workforce more quickly with the implementation of a golden handshake program than in the absence of this program

- Comment whether there are any benefits of beginning the golden handshake program in 2002-03 rather than 2003-04 for the purpose of encouraging departments and employees to participate in this program.

- Explore options to the golden handshake program implemented as part of Control Section 3.91 of the Budget Act to be used prior to June 30, 2004 in order to increase participation by departments and employees including:

- Revenue neutral programs that would not require departments to achieve savings from the enhanced retirement program but would facilitate meeting its fiscal reduction targets

  - Mandating departments to offer the golden handshake under certain circumstances

- Consider whether the golden handshake should be limited to:

  - Those departments that would likely require layoffs to meet its program reduction targets
  - Those classifications that are likely to suffer layoffs in order to meet its program reduction targets.

1920 STATE TEACHERS' RETIREMENT SYSTEM (STRS)

PROPOSAL 1: SUPPLEMENTAL BENEFIT MAINTENANCE ACCOUNT (SBMA):

The Governor's mid-year reductions propose to reduce the 2003-04 state payment to the SBMA for a General Fund savings of $500 million.

BACKGROUND:

The SBMA is the account within the State Teachers' Retirement Fund that finances supplemental payments to retired teachers in amounts necessary to maintain the purchasing power of their retirement benefits is at least 80 percent of the purchasing power at the time of retirement. The State is statutorily required to make annual General Fund payments to the SBMA equal to 2.5 percent of teachers' salaries, estimated to be $555 million in 2003-04.

PROPOSAL:

The administration proposes to reduce this payment by $500 million in 2003-04, coupled with a statutory commitment to restore the funds if purchasing power protection at the 80 percent level cannot be maintained through July 1, 2036. According to the Department of Finance, STRS' actuarial estimates indicate that the SBMA will have sufficient resources to provide the required supplemental payments for at least 30 years even with the proposed $500 million one-time payment reduction in 2003-04.

The State's Legal Obligation to STRS. Although the annual General Fund contributions to the SBMA are a contractual obligation of the state, Legislative Counsel has opined that the Legislature may reduce or eliminate this contribution if actuarial data from STRS indicates that the reduction or elimination will not impair the actuarial soundness of STRS. Legislative Counsel also points out that the courts have held that the state may go further and impair contractual rights based on proof of a compelling state interest. STRS has informed committee staff that it is reviewing both the legal and financial aspects of this proposal.

The administration's proposed Trailer Bill language (which would includes a finding that in the current fiscal crisis it is in the best interest of the people of the state and that it is the state's responsibility as a sovereign to "revise prior commitments, if that revision does not impair the intent and effect of any contractual obligation." The proposed language also requires STRS to reassess the actuarial condition of the SBMA every four years, beginning in 2006, and appropriates up to $500 million from the General Fund to make any additional contributions needed to fully fund SBMA benefits through 2035-36.

COMMENTS:

The Subcommittee heard a discussion of this issue at its December 17th hearing, and requested the STRS board to respond to the proposal. The STRS board will meet next week to consider this issue (on Thursday January 23rd). However, STRS staff has provided the board with their analysis and comments on the proposal and they have indicated to Budget Committee staff that they are prepared to provide those comments to the subcommittee at this hearing.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
2310 OFFICE OF REAL ESTATE APPRAISERS

PROPOSAL 1: LOANS TO THE GENERAL FUND

The Governor's mid-year reductions propose the following loans (or increases in existing loans) from various housing special funds to the General Fund:

Loan from Self-Help Housing Fund	**$3,418**
Loan from Farmworker Housing Grant Fund	**1,548**
Loan from Housing Rehabilitation Loan Fund--bond funds	**7,330**
Loan from Rental Housing Construction Fund--bond funds	**1,834**
Loan from Emergency Housing and Assistance Fund	**1,617**
Increase CY loan from Mobilehome Park Purchase Fund by $2M	**2,000**
Loan from Manufactured Home Recovery Fund	**500**
Loan from Real Estate Appraisers Regulation Fund (Item 2310)	**1,000**

These loans total $19.2 million.