

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

Assemblymember George Nakano, Chair

MONDAY, MAY 20, 2002
STATE CAPITOL, ROOM 437
1:30 P.M.

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CONSENT CALENDAR**ITEM 0890 SECRETARY OF STATE**

May Revise: General Fund Operations Reduction. Reduce Item 0890-001-0001 by \$950,000 to reflect a decrease in funding for the operations of the Secretary of State's Office. No elections-related function or activities will be affected by this reduction.

May Revise: Reduction in Base Rental Payments. In Item 0890-003-0228 reduce base rental and fees by \$1,000 and increase structural insurance by \$1,000. This adjustment would reflect a reduction in base rental payments due to an updated debt service payment schedule for a lease revenue funded project.

May Revise: Increased Insurance Costs. An increase of \$1,000 in Item 0890-003-0001 is requested to address increased insurance costs.

ITEM 0552 OFFICE OF INSPECTOR GENERAL

May Revise: General Fund Reduction. \$1 Million General Fund Reduction.

ITEM 0845 DEPARTMENT OF INSURANCE

May Revise: Shift the Premium Tax Program to the Insurance Fund. Reduce \$1,767,000 General Fund and augment \$1,767,000 Insurance Fund to support the Premium Tax Program.

May Revise: Workers' Compensation Investigation Workload. An increase of \$628,000 is proposed to fund a two-year limited-term pilot program to determine the investigation workload impact resulting from Chapter 6, Statutes of 2002 (AB 749). This program beginning January 1, 2003 would investigate new workers' compensation criminal activity based on new crime definitions enacted in this Chapter and determine the level of investigation necessary on a permanent basis.

ITEM 0860 STATE BOARD OF EQUALIZATION

May Revise: Postage Rate Increase. Augmentation of \$216,000 (\$173,000 General Fund).

May Revise: Adjust January Expenditure Reduction Plan. Restore 4 positions in the Customer and Taxpayer Services Division and eliminate 4 administrative positions—no net cost.

ITEM 1100 CALIFORNIA SCIENCE CENTER

May Revise: General Fund Reduction. A reduction of \$1.1 Million from the Science Center's Budget.

May Revise: Reimbursements. It is requested that Item 1100-003-0001 be increased by \$6,000 and Reimbursements decreased by \$6,000. This would reflect a shift in funding from reimbursements to the General Fund due to a decrease in interest earnings and surplus construction funds to pay base rental payments for a lease revenue funded project.

May Revise: Provisional Language. The proposed provisional language would allow for the pre-qualification of subcontractors who will be participating in the construction of the Science Center's Phase II. This ensures that specialized exhibits and animal displays in the project will be constructed by companies who have demonstrated expertise in the different disciplines and complexities of museum construction.

ITEM 1111 DEPARTMENT OF CONSUMER AFFAIRS

May Revise: Consumer Relations and Outreach Division. A reduction of \$41,000 General Fund for the consumer Information Center.

May Revise: Office of Privacy Protection. A reduction of \$100,000 General Fund for the Office of Privacy Protection.

May Revise: State Athletic Commission. A reduction of \$74,000 General fund for the State Athletic Commission.

ITEM 8300 AGRICULTURAL LABOR RELATIONS BOARD

May Revise: General Fund Reduction. It is requested that Item 8300-001-0001 be decreased by \$519,000 to reflect a reduction to the operations of the ALRB.

ITEM 8350 DEPARTMENT OF INDUSTRIAL RELATIONS

May Revise: State Mandated Local Programs. A reduction of \$1,496,000 for the mandated program within this item for which funding was provided in the Governor's Budget.

May Revise: Base Budget Realignment. It is requested that Item 8350-001-0001 be increased by \$563,000, Item 8350-001-0223 be increased by \$141,000, Item 8350-001-0222 be decreased by \$704,000. This action would realign the base funding for the Commission on Health and Safety and Workers Compensation as mandated by Chapter 6, Statutes of 2002 (AB 749), which takes effect January 1, 2003.

May Revise: Postage Rate Increase. It is requested a total augmentation of \$174,000 to address a postal rate increase that is anticipated to take effect July 1, 2002.

May Revise: Workers Compensation Studies. It is requested that Item 8350-001-0222 be reduced by \$1.2 million to delete funding for Workers Compensation Studies, and Item 8350-001-0222 be increased by \$2,005,000, which increases the proposed amount of transfer to the General Fund.

May Revise: Elevator Safety Inspection Program. It is requested that Item 8350-001-0001 be reduced by \$1.0 million and Item 8350-001-0452 be increased by \$1.0 million for support of the Elevator Safety Inspection Program in the Division of Occupational Safety and Health.

May Revise: Elimination of the Loss control Certification Program. It is requested that Item 8350-001-0284 be reduced by \$404,000 and Item 8350-001-0001 be revised to reflect this change. This reduction reflects the elimination of the Loss Control Certification Program in DOSH effective January 1, 2003, as mandated by Ch. 6, Statutes of 2002 (AB 749). It is further requested that Item 8350-011-0284 be increased by \$103,000 to provide an increased transfer to the General Fund.

May Revise. Increased Transfer to the General Fund. It is requested that Item 8350-011-0223 be increased by \$805,000 and that following trailer bill language:

Labor code Section 62.5(a) is amended to read:

"62.5. (a) The Workers' Compensation Administration Revolving Fund is hereby created as a special account in the State Treasury. Money in the fund may be expended by the department, upon appropriation by the Legislature, for the administration of the workers' compensation program set forth in this division and Division 4 (commencing with Section 3200), other than the activities financed pursuant to Section 3702.5, and shall not be used for any other purpose except as determined by the Legislature."

ITEM 8380 DEPARTMENT OF PERSONAL ADMINISTRATION

May Revise: Rural Health Care Equity Program. This proposal would reduce by \$1,905,000 General Fund for lower than anticipated enrollments and increase by \$68,000 General Fund for additional administrative costs. This is a net General Fund reduction of \$1,837,000.

ITEM 8450 WORKERS' COMPENSATION BENEFIT PROGRAM

May Revise: Workers' Compensation Benefit Program. A reduction of \$1,000,000 General Fund and a corresponding augmentation of \$1,000,000 from the Subsequent Injuries Moneys Account for the payment of additional compensation arising from subsequent injuries to workers. This proposed one-time fund shift will not impact payment of claims for subsequent injuries.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Note: The May Revision proposal dealing with a state mandate reduction for HCD will be heard under the Commission on State Mandates.

Consolidated Pre-development Loan Program: Shift funding for support of the Consolidated Pre-development Loan Program— Decrease Item 2240-001-0001 by \$110,000 and increase Item 2240-001-0980 by \$110,000 to reflect a fund shift from the General Fund to the Predevelopment Loan Fund for support of the Consolidated Predevelopment Loan Program.

Staffing for Emergency Housing Assistance Program: Increase items 2240-001-0001 and 2240-001-0985 by \$226,000 to reflect the redirected of two limited-term positions from the Jobs/Housing Balance Incentive Grant Program to the Emergency Housing Assistance Program.

Reduce funding for the Emergency Housing and Assistance Program: Reduce Item 2240-105-0001 by \$6.0 million to reflect a funding reduction for the Emergency Housing and Assistance Program. This leaves \$5.3 million available for the program.

Transfer prior year Interregional Planning Partnership grant funds to the General Fund: Add Item 2240-115-0929 to transfer \$1,290,000 from the Housing Rehabilitation Loan Fund to the General Fund. The funds available for transfer are unused Inter-regional Planning Partnership grants funds originally provided in the 2000 Budget Act.

Augmentation for Mobile home Parks Inspectors: It is requested that Item 2240-001-0245 be increased by \$120,000 to provide adequate expenditure authority for existing Mobile home Parks inspection staff and Item 2240-001-0001 is revised to reflect this change. The Department of Housing and Community Development (HCD) has historically experienced recruitment and retention problems in this program leading to delays in meeting inspection targets, particularly for health and safety maintenance inspections. The program is now fully staffed as a result of other program reductions. Additional resources are required to fully fund the positions that have been partially funded due to the historical staffing problems.

ITEM 2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY

Postage Costs Increase: It is requested that items 2920-001-0001 and 2920-001-0649 be increased a net amount of \$62,000 to fund costs related to the increase in United States Postal Service rates, which become effective July 1, 2002.

Marketing and Communications Program: Reduce \$627,000 for support of the Marketing and Communications Program. Savings total \$148,000 in authorized positions and \$479,000 in OE&E.

Office of Export Development: Reduce \$400,000 for support of the Office of Export Development. Savings total \$244,000 in authorized positions and \$156,000 in OE&E.

Office of Foreign Investment: Reduce \$239,000 for support of the Office of Foreign Investment. Savings total \$160,000 in authorized positions and \$79,000 in OE&E.

Office of Business Development: Reduce \$538,000 for support of the Office of Business Development. Savings total \$105,000 in authorized positions and \$433,000 in OE&E.

Division of Science, Technology, and Innovation: Reduce \$803,000 for support of the Division of Science, Technology, and Innovation. Savings total \$422,000 in authorized positions and \$381,000 in OE&E.

California Film Commission: Reduce \$300,000 for operating expenses for the California Film Commission.

Space Industry Development Grant Program: Reduce \$77,000 to suspend the Space Industry Development Grant program and reduce by \$923,000 for suspension of Space Industry Development grants for a total savings of \$1.0 million.

Regulation Review Unit: Reduce \$89,000 to eliminate the Regulation Review Unit. The unit is part of the Economic Research and Strategy Initiative Division within TTCA.

Office of Economic Development: Reduce \$448,000 to eliminate the Office of Economic Development.

Office of Permit Assistance: Reduce \$226,000 to eliminate the Office of Permit Assistance.

Regional Office Program: Reduce \$2,556,000 to eliminate the Regional Office Program. This proposal requires that Government Code Section 15323.5 be amended to authorize, rather than require the agency to maintain specific regional offices.

Next Generation Internet: Reduce \$1.0 million for suspension of Next Generation Internet grants.

Rural e-Commerce: Reduce \$1.0 million for suspension of Rural e-Commerce grants. The program is due to sunset on 6/30/03.

California Infrastructure and Economic Development Bank Fund: Add Item 2920-115-0649 to transfer \$8.0 million from the California Infrastructure and Economic Development Bank Fund to the General Fund.

Petroleum Underground Storage Tank Financing Account: Add Item 2920-115-0440 to loan \$17.0 million from the Petroleum Underground Storage Tank Financing Account to the General Fund. This loan leaves \$15.8 million in the account.

Petroleum Financing Collection Account: Add Item 2920-115-0694 to transfer \$1.0 million from the Petroleum Financing Collection Account to the General Fund.

ITEM 8955 – 8966

VETERANS AFFAIRS AND VETERANS' HOMES OF CALIFORNIA

Note: *The May Revision proposal for the assessment and development of an implementation plan for HIPAA will be heard in Subcommittee 1 on Health and Human Services.*

Yountville Veterans Home: It is requested that Item 8960-011-0001 be decreased by \$1,318,000 and amended to reflect Item 8960-011-0890 being increased by \$1,318,000. These changes are due to an increase in the United States Department of Veterans Affairs (USDVA) per diem rate.

Barstow Veterans Home: It is requested that Item 8965-001-0001 be decreased by \$533,000 and amended to reflect Reimbursements being decreased by \$278,000, and Item 8965-001-0890 being increased by \$114,000. These changes are due to an increase in the USDVA per

diem rate and a reduction in the budgeted census level due to a delay in reaching full occupancy at the Home.

It is requested that Item 8965-003-0001 be increased by \$13,000 and Reimbursements be increased by \$8,000. This adjustment will allow the use of interest earnings and surplus construction funds to assist in funding the increased property insurance costs for a lease revenue funded project.

Chula Vista Veterans Home: It is requested that Item 8966-001-0001 be decreased by \$867,000 and amended to reflect Reimbursements being decreased by \$290,000, and Item 8966-001-0890 being increased by \$398,000. These changes are due to an increase in the USDVA per diem rate and a reduction in the budgeted census level due to a delay in reaching full occupancy at the Home.

ITEM 8940 MILITARY DEPARTMENT

National Guard Reductions: A \$900,000 General Fund reduction for the Army National Guard, the Air National Guard, Support to Civil Authority, and the State Military Reserve Program is proposed in order to address the General Fund shortfall facing the state.

CA Cadet Corps/Youth Programs Reduction: A \$900,000 General Fund reduction for youth programs. The reductions are as follows: CA Cadet Corps (\$137,000), Oakland Military Institute (\$239,000), STARBASE Academy (\$13,000), Turning Point Academy (\$289,000), Challenge Grizzly Youth Academy (\$208,000), and Youth Programs Headquarters (\$14,000). *The Subcommittee eliminated all funding (\$2.993 million) for Turning Point Academy, so approval of this item would result in a \$611,000 General Fund Reduction and an amendment to continue funding elimination for Turning Point Academy.*

Los Alamitos Air Field Electrical Distribution System: Finance letter requests \$225,000 (GF) for cost adjustment to working drawings.

Statewide Security Lighting: Deferral of funding for project results in a \$885,000 General Fund savings.

Lancaster Armory: Switch funding for the acquisition phase to the Armory Fund and defer funding for working drawings until 2003-04. Results in savings of \$1.585 million.

Bridge Security. It is requested that \$6.0 million in federal funding for bridge security be deleted to reflect the discontinuation of the budget guarding security mission at four bridges throughout the state.

ITEM 0250 **JUDICIARY**

May Revise: General Fund Reduction. One time \$2,800,000 General Fund Reduction

ITEM 0450 **STATE TRIAL COURT FUNDING**

May Revise: General Fund Reduction. One time \$59,200,000 reduction of General Fund transfer to the Trial Court Trust Fund and commensurate reduction in the allotment to the Trial Court Trust Fund

May Revise: Trailer Bill Language for Criminal Fines and Filing Fees. Trailer bill language proposed to conform with previously approved action regarding the increase in criminal fines and filing fees

ITEM 0690 **OFFICE OF EMERGENCY SERVICES**

May Revise: Perimeter Fencing. Reduction from the General Fund of \$1,631,000 in the Budget Year to defer the construction of a perimeter fence.

May Revision: Disaster Assistance Funding. Reduction of \$5,000,000 for disaster assistance to local agencies

ITEM 0820 **DEPARTMENT OF JUSTICE**

May Revise: IT Reorganization. Redirection of funds between program to support the department's information technology efforts.

May Revise: DNA Laboratory. Reduction of \$5,000,000 from the General Fund to reflect a one-year deferral of acquisition costs for the Statewide DNA Forensic Laboratory

May Revise: General fund Reduction of \$10,000,000 from the General Fund

May Revise: California Gang Crime and Violence Prevention Partnership. Reduction of \$1,500,000 from the General Fund in grants to local agencies related to the CAL-GANG program

May Revise: Spousal Abuse Vertical Prosecution Program. Reduce \$800,000 from the General Fund in grants to local district attorney's offices to fund the vertical prosecution efforts in spousal abuse cases.

May Revise: Mandates. Reduction of \$15,295,000 million from the General Fund for the funding of mandates for the Custody of Minors pursuant to Chapter 1339/76 ; Stolen Vehicle Notification pursuant to Chapter 337/90; and Misdemeanor Fingerprinting and Booking pursuant to Chapter 1105/92. Funding for these mandates is reduced to \$1,000 in the Budget Year.

ITEM 1880 STATE PERSONNEL BOARD

May Revise: Mandates. Reduction of \$49,999,000 from the General Fund for the funding of mandate for the Peace Officers Procedural Bill of Rights pursuant to Chapter 675/90 . Funding for this mandate is reduced to \$1,000 in the Budget Year.

ITEM 5240 DEPARTMENT OF CORRECTIONS

May Revise: Patton State Hospital. Reduction of \$427,000 from the General Fund to reflect the absence of the need for additional security staffing at Patton State Hospital as the previously projected increase in population is no longer anticipated.

May Revise: Psychiatric Unit Activation. Reduction in payment to the Department of Mental Health of \$1,450,000 from the General Fund due to a 4 month delay in the activation of the psychiatric unit at Salinas Valley State Prison.

May Revise: Adjustment to Lease Payments. Reduction of \$23,468,000 to reflect lower lease payments

May Revise: Substance Abuse Beds. Reduction of \$2,500,000 from the General Fund to reflect the one year delay of the activation of 200 substance abuse beds and the 5 month delay of the activation of 300 aftercare treatment slots.

May Revise: Civil Addict Program. Reduction of \$10,000,000 from the General Fund to reflect savings as a result of the reduction of the Civil Addict Program. This proposal would require the adoption of trailer bill language.

May Revision: Fire Camp Work Credits. Reduction of \$16,700,000 from the General Fund to reflect savings as a result of increases in work credits earned for an inmate assigned to a fire camp from one day of every day of assignment to two days for every day of assignment. \$18.9 million in savings for the institutional program would be offset by \$2.2 million in additional costs to the parole program.

May Revision: Range Training. Reduction of \$3,609,000 from the General Fund related to the savings from the elimination of monthly firing range training for correctional officers.

May Revision: Parole Program. Reduction of \$9.2 million from the General Fund related to savings from the elimination of the Ed Veit Community Correctional Center (transitional housing), 4-C's Community Correctional Center, substance abuse program in Fresno, Community Prisoner Mother Program beds that allow incarcerated mothers to live with and raise their children in a community based facility.

May Revision: Mandates. Reduction of \$1,998,000 from the General Fund for the funding of the Parental Prisoner Rights Program pursuant to Chapter 820/91. Funding for this mandate is reduced to \$1,000 in the Budget Year.

ITEM 5430 BOARD OF CORRECTIONS

May Revision; CLEAR. Transfer of \$2,000,000 funding from General Fund to reappropriated items for the budget year support of the Community Law Enforcement and Recovery Program.

May Revision: Mentally Ill Offender Crime Reduction Grant and Juvenile Crime Enforcement and Accountability Grant. Reduction of \$29,600,000 from the General Fund to reflect savings from the elimination of funding in the Budget Year for the Mentally Ill Offender Crime Reduction Grant and Juvenile Crime Enforcement and Accountability Grant

May Revision: Mandate. Reduction of \$1,771,000 from the General Fund for the funding of the mandate for the Domestic Violence Treatment Services pursuant to Chapter 183/92 , and the Domestic Violence Treatment Programs Approvals pursuant to Chapter 221/93. Funding for this mandate is reduced to \$1,000 in the Budget Year.

ITEM 5440 BOARD OF PRISON TERMS

May Revise: Workload Reduction: Reduction of \$223,000 from the general Fund to reflect savings related to a projected decline in the number of parole revocation and mentally disordered offender hearings held by the department.

ITEM 5460 DEPARTMENT OF YOUTH AUTHORITY

May Revise: Capital Outlay Reductions. reduction of \$200,000 from the General Fund to reflect savings related to departmental capital outlay projects

May Revise: Minor Capital Outlay. Reduction of \$1 Million from the general fund to reflect savings related to departmental minor capital outlay projects

May Revise: Population Adjustment (non Prop 98). Reduction of \$2,112,000 from the General fund to reflect lower departmental costs associated with a declining population as compared with the fall 2001 estimates.

May Revise: Parole Services Reduction: Reduction of \$5 Million from the General Fund to reflect savings resulting from the termination of parole programs including: Southern California Drug Treatment Program, Transition Residential Program, Electronically Enhanced Parole Release Program, Fouts Springs In-Lieu Revocation Drug Treatment Programs and Volunteers in Parole. These programs generally provide transitional assistance to juvenile offenders to facilitate incorporation to society after living in a Youth Authority institution. Due to an excess of institutional bed space the department proposes the termination of these programs

May Revise: Juvenile Commitment Fees. Reduction of \$7,630,000 from the General Fund and a commensurate increase in reimbursement to reflect an adjustment of the fee counties pay for commitments to the Department of youth authority institutions. The fee will be increased by the amount of inflation since the fee was last increased. This would result in an approximate 17 percent increase in the fee.

ITEM 8100 OFFICE OF CRIMINAL JUSTICE PLANNING

May Revise: High Technology Apprehension and Prosecution Grants. Administration proposes a reduction of \$4,177,000 from the General Fund related to a downsizing of grant funds available to locals government for the High Technology Apprehension and Prosecution Grants.

May Revise: General Fund Grants. The Administration proposes a 50 percent reduction in General Fund grants. This would generate a savings to the General Fund of \$19,380,000 in the Budget Year.

May Revise: Mandate. Reduction of \$849,000 from the General fund related to the funding of the Threats Against Peace Officers mandate pursuant to Chapters 1249/92 and 666/95, and the Crime Victims Rights mandate pursuant to Chapter 411/95. Funding for this mandate is reduced to \$1,000 in the Budget Year.

ITEM 8120 COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING

May Revise: Mandate. reduction of \$6,922,000 from the General Fund related to the funding of the Domestic Violence Arrest Policies and Standards pursuant to Chapter 246/95. Funding for this mandate is reduced to \$1,000 in the Budget Year.

ITEM 8140 OFFICE OF THE STATE PUBLIC DEFENDER

May Revise: Vacant Positions. Reduction of \$250,000 from the General Fund related to savings incurred due to existing position vacancies.

Section 4.20 Health Care Administration. Reduction of \$5,537,000 from various funds related to the reduction of the administrative charge to employers from .5 percent to .2 percent of the gross health insurance premium paid by employers and employees.

CONTROL SECTION 3.80 PREMIUM - OFFSET FOR EMPLOYER-PAID LIFE INSURANCE

May Revision: One-time Savings. Recognize payment to state of \$1.7 million (\$827,000 General Fund) of demutualization proceeds of the state's carrier for employee life insurance.

ITEMS TO BE HEARD**ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION**

The Department of Personnel Administration (DPA) manages the non-merit aspects of the State's personnel system. The goals of the DPA are to insure proper administration of existing terms and conditions of employment for the State's civil service employees, and to represent the Governor as the employer in all matters concerning State employer-employee relations.

ISSUE 1: LABOR RELATIONS OFFICER

The Department of Personnel Administration (DPA) represents the Governor as the employer in all matters concerning State employer-employee relations. The DPA is requesting an additional Labor Relations Officer to address increased workload resulting from the negotiation, administration, and implementation of the collective bargaining agreements with the State's 21 Collective Bargaining Units. It is requested that Item 8380-001-0001 be increased by \$149,000 to provide funding for one position to address this increase in workload.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

ISSUE 2: EXCESS VACANCIES

As part of the Administration's effort to eliminate excess vacant positions, we have reviewed the continuing staff requirements for DPA and have determined that 13.8 positions (13.0 personnel years) can be eliminated. This action is consistent with the proposed Budget Bill Control Section 31.50.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION**ISSUE 3: ADMINISTRATIVE FEES FOR 401(K) PLAN**

The Administration approved an employer-paid 401(k) contribution to the Savings Plus Program (SPP) on behalf of excluded employees for a one-year period beginning July 1, 2000. To provide account maintenance, it is necessary to assess monthly administrative fees on accounts, including those accounts established as a result of employer contributions. Since existing appropriation authority is not available for those accounts established with employer contributions, it is requested that Item 8380-001-0915 be increased by \$387,000 and Item 8380-001-0001 be revised to reflect this change.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION**ISSUE 4: SAVINGS PLUS PROGRAM (SPP) GROWTH**

The DPA administers the SPP, which provides State employees the opportunity to voluntarily invest in either a 457 or 401(k) retirement savings plan. Because of increased participation, the number of SPP accounts has increased by approximately six percent. This growth results in a corresponding increase in administrative costs charged by the Third Party Administrator (TPA) maintaining the SPP accounts. As a result of growth in the number of SPP accounts, annual payments to the TPA will increase by \$151,000.

The SPP call center has experienced a continual increase in workload. In order to address increases in call volume and maintain customer service, it is necessary to contract out for back-up services. The increase cost of maintaining back-up call center services is \$216,000.

The passage of the Economic Growth and Tax Relief Reconciliation Act in 2001 required DPA to implement several program changes in the SPP. As a result of these changes, the SPP must revise and reproduce plan materials, and distribute these materials to participants. Fulfilling these mandatory communication requirements will result in one-time costs of \$50,000.

In order to provide DPA with necessary resources for the aforementioned administrative costs, it is requested that Item 8380-001-0915 be increased by \$417,000 and Item 8380-001-0001 be revised to reflect this change.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION**ISSUE 5: BENEFITS PROGRAM GROWTH**

The DPA manages the majority of the benefit program for State employees. As a result of increased enrollments in the various benefits programs, DPA will collect additional fees and incur a corresponding increase in administrative costs. To address the additional administrative costs, it is requested that Item 8380-001-0001 be amended by increasing Reimbursements by \$358,000.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION**ISSUE 6: INDIAN GAMING COUNCIL REAPPROPRIATION**

The 2001 Budget Act reappropriated Item 8380-001-0367, Budget Act of 2000, to provide DPA with the funding needed for the implementation and administration of the State-tribal compacts. Since DPA will not fully expend the funding in the 2001-02 fiscal year, and the need to administer the State-tribal compacts will continue into the 2002-03 fiscal year, it is requested that Item 8380-490 be added to reappropriate the unexpended balance of \$383,000 in this item.

Reappropriation Language for Indian Gaming (8380-001-0367):

8380-490 – Reappropriation, Department of Personnel Administration. Notwithstanding any other provision of law, as of June 30, 2002, the balance of the appropriations provided in the following citation is reappropriated for purposes provided for in that appropriation and shall be available for encumbrance and expenditure until June 30, 2003:

0367 – Indian Gaming Special Distribution Fund

(1) Item 8380-001-0367, Budget Act of 2000 (Ch. 52, Stats. 2000), as reappropriated by Item 8380-490, Budget Act of 2001 (Ch. 106, Stats. 2001).

ITEM 1730 FRANCHISE TAX BOARD**ISSUE 1: MAY REVISION TAX COMPLIANCE STAFFING PROPOSALS**

The Governor's May Revision requests \$8.6 million for 112 additional positions, and several related statutory changes in trailer bill language, in order to enhance tax collection and compliance efforts. The Franchise Tax Board (FTB) estimates that these augmentations will increase revenues by a total of \$157.7 million in 2002-03, for a net General Fund gain of \$149.1 million.

1. **Additional Augmentation for Collections Staff-- 51 positions and \$3,780,000 General Fund.** These positions would increase collection activities of accounts above the 5:1 benefit:cost ratio. The FTB estimates that this augmentation will increase revenues by \$11.6 million in 2002-03, for a net benefit of \$7.8 million. This May Revision request is in addition to an augmentation of \$6.2 million for 78.8 collections positions requested in the Governor's Budget which the Subcommittee approved on April 16. The FTB estimated that the original augmentation would increase revenues by \$27.5 million
2. **High-Risk Collection Program: Waiver of Penalties and Interest--41 positions (1-year limited term ending in August 2003), \$3,289,000, and Trailer Bill Language.** This augmentation would allow FTB staff to contact selected delinquent taxpayers with an offer to waive penalties and interest if back taxes are paid. The program would target delinquent accounts at high risk of default (for examples, accounts for which penalties and interest may result in taxpayers declaring bankruptcy). This proposal is estimated to increase revenues by \$125.0 million in 2002-03. The request includes budget Trailer Bill Language necessary to implement this program.
3. **Add Legal Staff to Accelerate Large Tax Protest Cases—2 positions, \$260,000.** FTB will use two additional legal staff to work multiple issue cases involving \$5 million plus in tax. There are 10 targeted current cases worth \$174.1 million. FTB has a 50 percent historical protest sustain rate at FTB and a 50 percent success rate on appeal to the Board of Equalization, resulting in potential revenue realization of \$43.5 million to account for FTB's historical success rate at the BOE. Adding back interest of about \$23 million brings the revenue to \$67 million relative to those 10 cases. However, only 2 of the 10 cases (worth \$3.0 million) will be complete in 2002-03. The remaining \$64 million will be realized in FY 2003-04.
4. **Integrated Non-Filer Compliance Program Expansion--14 positions and \$799,000.** About \$3 million will be generated by lowering the threshold of cases from \$200 to \$100 of estimated tax liability. Currently, the Integrated Non-Filer Compliance (INC) Program does not pursue cases in which the tax liability (after withholding and known credits) is less than \$200. The \$3 million is calculated by lowering the threshold to \$100 then taking the total new contacts (about 120,000) times the average collectability per contact (between \$18 - \$25 dollars). This calculation reduces total assessments to net GF collections. In order to enhance compliance from individuals and businesses that are not filing tax returns. This proposal is estimated to increase revenues by \$4.0 million in 2002-03.
5. **Settlement Program Attorneys—4 positions and \$520,000 (previously acted on).** These limited-term positions will work down the backlog of approximately 180 cases in the

voluntary settlement program. The FTB estimates \$14.1 million additional revenues in 2002-03, \$18.8 million in 2003-04, and \$30.6 million in 2004-05. The Subcommittee approved this proposal (as an LAO recommendation) on April 16, but with a two-year limit, rather than the three-year limit proposed in the May Revision.

COMMENTS:

The May Revision proposals, together with increased audit and collections staff proposed in the Governor's Budget, will add a total of more than 200 positions to the FTB. The LAO points out that the revenue estimates from these activities are subject to significant uncertainty, and revenues could vary over time. Accordingly, the Subcommittee may wish to consider the following two additional actions:

- Apply a three-year limited term to all audit/collections/compliance positions that are not limited to a shorter term.
- Adopt Supplemental Report Language to direct the FTB to include status reports and an evaluation of the results of these augmentations in its annual audits and collections report to the Legislature.

ITEM 1730 **FRANCHISE TAX BOARD**

ISSUE 2: HOUSEHOLD AND DEPENDENT CARE CREDIT WORKLOAD

This program provides a refundable tax credit that varies with income for household and dependent care expenses incurred to sustain employment. The LAO has raised an issue regarding potential overbudgeting of staff for program administration and fraud prevention.

COMMENTS:

Based on recent experience the FTB now agrees that a reduction would be appropriate in the amount of \$250,000 and 9 personnel-years.

ITEM 1730 FRANCHISE TAX BOARD**ISSUE 3: OTHER PROPOSALS**

The May Revision includes the following additional requests:

1. **Postage Increase —\$704,000.** Increased postage costs will result from a postage rate increase by the United States Postal Service, effective June 30, 2002. The FTB annually sends out more than 25 million pieces of mail. These mailings include tax forms, booklets, and notices of various kinds.
2. **Increase Reimbursements for Lease Revenue Payments and Increase in Insurance Costs--\$52,000 savings.** This adjustment will allow the use of interest earnings and surplus construction funds to pay base rental payments for a lease revenue funded project in the amount of \$57,000 and will reflect an increase of \$5,000 in insurance cost for a net decrease of costs to the General Fund in the amount of \$52,000.
3. **California Child Support Automation System (CCSAS) Contract—Budget Bill Language.** The May Revision proposes language that would allow an augmentation to the FTB's budget to provide funding for the CCSAS contract. Chapter 479, Statutes of 1999, requires the FTB, in collaboration with the Department of Child Support Services (DCSS) to procure, develop, implement, and maintain the California Child Support Automation System in all California counties. In order to fulfill these requirements, a contractor is needed. CCSAS project used the Alternative Procurement Process in Business Partner selection process. This is a competitive bid process. Final bids were due in February 2002, and one vendor, representing several subcontractors, submitted a bid. The costs of this contract are currently under review; therefore, it is unknown what level of funding will be required in 2002-03 to begin development and implementation of the CCSAS project. The proposed budget bill language would require notification to the Legislature prior to any augmentation.
4. **CCSAS Project Leader (March 29 Finance Letter).** This Finance Letter requested the transfer of a position from the FTB to DCSS to establish a Project Leader for the CCSAS. Subcommittee 1 has approved the DCSS component of this request.

COMMENTS:

- No Issues have been raised with proposals 1,2,and 3.
- **CCSAS Project Leader.** The FTB budget should be reduced by \$40,000 (\$27,000 General Fund) to delete funding for the transferred position.

ITEM 9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS**ISSUE 1: MAY REVISION UPDATE**

At its April 10 hearing, the Subcommittee held this item open pending the May Revision estimate update. The May Revision update reflects health benefit premium increases adopted by PERS. For 2002-03, General Fund costs increase by \$23 million (to \$576.6 million). However lower enrollment in the current year results in savings of \$27.6 million versus the Governor's Budget, for a net savings of \$4.6 million over the two years. The May Revision also includes a conforming change in Budget Bill Language to reflect the revised health premiums.

COMMENTS:

Control Section 4.20 makes a one-time reduction in PERS charges for health benefit administration. LAO has raised an issue as to whether the \$2.7 million General Fund savings estimated for Control Section 4.20 includes savings to this item. LAO and DOF should inform the subcommittee if any estimate changes are warranted.

ITEM 9800 EMPLOYEE COMPENSATION

ISSUE 1: MAY REVISION UPDATE

The Governor's Budget included \$209.7 million (\$130 million General Fund) for continuing costs of employee compensation for both represented and excluded employees. About half of this amount was for employer health benefit costs due to increases in health premiums. Generally, the state's maximum monthly health premium contribution is two-thirds of the weighted average premiums of health plans available to state employees.

The May Revision requests an additional \$89.5 million (\$54.5 million General Fund), primarily due to higher health benefit costs due to increases in premiums effective January 2003. The increase also reflects some additional costs resulting from four recently adopted collective bargaining agreements. The state has now concluded bargaining agreements with 19 of the 21 bargaining units.

ITEM 2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY

ISSUE 1: MANUFACTURING TECHNOLOGY PROGRAM (MTP)

The Governor's January budget proposed a \$600,000 General Fund reduction to this program. The Subcommittee denied the proposal and retained full funding for MTP. The May Revision proposes a \$2.7 million General Fund reduction for MTP, which forms partnerships between federal, state, academic, and private sector entities.

SUGGESTED RECOMMENDATIONS FOR DEMOCRATIC MEMBERS

Approve May Revision finance letter for a reduction of \$2.7 million.

ITEM 2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY

ISSUE 2: OFFICE OF MILITARY BASE RETENTION AND REUSE (OMBRR) AND DEFENSE ADJUSTMENT MATCHING (DAM) GRANTS

The Subcommittee approved the \$100,000 General Fund augmentation for the Office of Military Base Retention and Reuse (OMBRR) that was proposed in the Governor's January budget. The May Revision proposes a \$1.0 million General Fund reduction for the OMBRR (leaving \$93,000 in the office's budget) and elimination of the Defense Adjustment Matching (DAM) grant program for a savings of \$500,000.

ITEM 2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY

ISSUE 3: BIOMASS GRANT PROGRAM

This program provides financial incentives to reduce open-field burning of agricultural waste, to use renewable sources for electrical power, and to sustain the biomass industry. It was created in 2000, with intent language to annually fund the program at \$10.0 million for three years.

The May Revision proposes to decrease funding from \$6.0 million to \$4.0 million, for a General Fund savings of \$2.0 million.

ITEM 2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY**ISSUE 4: SMALL BUSINESS EXPANSION FUND (SBEF) TRANSFER**

An \$8.0 million General Fund transfer from the SBEF was proposed in the Governor's Jan. 10 budget. The Subcommittee approved the proposal as a LOAN instead of a transfer, with trailer bill language rescinding the original proposed transfer if the loan was found to be unconstitutional. New budget bill language, which guarantees that the funds loaned will be available if necessary, is being proposed for adoption:

The transfer made by this item is a time specific loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan. It is also the intent of the Legislature that this loan constitutes an asset of the expansion fund that may be encumbered in the same manner as moneys appropriated for those purposes and on deposit in the fund.

The May Revision proposes an additional transfer of \$2.7 million from the SBEF to the General Fund.

ITEM 2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY**ISSUE 5: RURAL ECONOMIC DEVELOPMENT INFRASTRUCTURE FUND TRANSFER**

The May Revision proposes an \$8.4 million transfer to the General Fund. In the Governor's budget, the balance for the Rural Economic Development Infrastructure Fund is \$4.0 million. This transfer is possible because current year loans have not happened and expenditures will be \$3.8 million less than expected.

Approval of this transfer will leave \$3.2 million available for funding.

ITEM 2320 DEPARTMENT OF REAL ESTATE

ISSUE 1: REAL ESTATE COMMISSIONER'S FUND LOAN

The Subcommittee approved a \$9.9 million loan from the Real Estate Commissioner's Fund to the General Fund on April 16th. The May Revision proposes an additional \$1.0 million loan, making the loan total \$10.9 million in the budget year.

The Finance Letter states that the additional loan amount is possible because revenues for the fund are higher than previously anticipated. The fund receives its revenues from examination fees, license fees, filing fees, inspection fees, and fifty percent of civil penalties recovered where the Real Estate Commissioner is a party plaintiff to the action.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**ISSUE 1: FARMWORKER HOUSING REDUCTION**

The Governor's May Revision proposes to reduce funding for grants and loans for farmworker housing by \$8.5 million (General Fund). This reduction leaves \$5.5 million available for farmworker housing.

The Housing Bond, which will be voted on in November, includes \$200 million for farmworker housing.

ISSUE 2: CALHOME FUNDS TRANSFER

The May Revision proposal is to transfer \$5.6 million from the Self-Help Housing Fund to the General Fund. The funds available for transfer are unused program funds originally provided in the 2000 Budget Act.

ISSUE 3: FARMWORKER HOUSING FUND TRANSFER

This proposal would transfer \$3.0 million in unused prior year grant and loan funds originally appropriated in the 2000 Budget Act. This action would also delete related budget bill language.

ISSUE 4: MOBILEHOME PARK PURCHASE FUND LOAN

During the Subcommittee hearing on April 16th, a \$6.0 million loan from the Mobilehome Park Purchase Fund to the General Fund was approved. This proposal increases the amount of the loan by \$2.1 million, for a total budget year loan of \$8.1 million.

ITEM 0820 DEPARTMENT OF JUSTICE

ISSUE1: FORENSIC FEES

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$51,476,000	\$-255,000	\$51,221,000

BACKGROUND:

Currently, the Department of Justice (DOJ) operates 11 crime laboratories that provide forensic services without charge to local law enforcement agencies that do not have their own forensic laboratories. The department provides a number of forensic services including crime scene investigations, ballistics, trace element analysis and DNA testing. An exception to the rule is the Department's charges for performing blood alcohol and drug testing services.

Local governments generally have the responsibility to investigate and prosecute crimes. This includes the development of physical evidence through the use of forensic services. The Legislative Analyst's Office (LAO) concluded that since these services were an integral part of the overall law enforcement responsibilities of local government the costs should be paid by those entities, thus providing alignment between the funding and programmatic responsibilities

Due to limited resources DOJ may have to limit services to local agencies to the investigation of violent and serious crimes where suspects have been identified. As a result, DOJ may be forced to prioritize its resources based upon the workload in its entire service area rather than that of a particular county that may experience other types of crime.

COMMENTS:

The Legislative Analyst's Office proposes that the cost of forensic services be shifted to the local governments receiving the service. This would allow the counties to request services based upon it own priorities. The proposal charging local entities for services provided by the Department of Justice crime laboratories is consistent with the Administration's proposal in 1999-2000. This concept was also previously proposed by the Legislative Analyst's Office in their Analysis of the 1997-98 Budget Bill.

The LAO estimates that this proposal would reduce General Fund costs to the Department of Justice by \$16 million annually. It is believed that after taking into account current charges to local agencies for blood alcohol and drug testing services, this amount may be closer to \$7 million annually. If one were to phase in the implementation in the budget year, a delay of six months would reduce the budget year savings to \$3.5 million. To the extent that local agencies increase their demand for services above current levels, the department would be able to support additional staffing and resources.

ITEM 0820 **DEPARTMENT OF JUSTICE**

ISSUE 2: CURES**BACKGROUND:**

In a Finance Letter, the Administration proposes an increase of \$124,000 from the General Fund and \$125,000 increase in reimbursements to continue the operations of the Controlled Substance Utilization Review and Evaluation System (CURES).

COMMENTS:

In a previous Budget Committee action, agencies within the Department of Consumer Affairs were directed to increase reimbursements to the Department of Justice by \$124,000 for a total of \$249,000. This would eliminate the need for General Fund support for the CURES Program.

The committee may want to reject the finance letter and increase reimbursements to the Department of Justice by \$249,000 to fund the CURES Program

ITEM 5420 DEPARTMENT OF CORRECTION**ISSUE 1: CLOSURE OF NORTHERN CALIFORNIA WOMENS' PRISON****BACKGROUND:**

The California Department of Corrections (CDC) is currently experiencing a decline in its female inmate population. From 11,500 as of June 30, 1999, the department estimates 9,800 by the end of the budget year. In total, CDC has 2,600 excess beds for female prisoners statewide. This surplus unused capacity may be a contributing factor in the budgetary shortfall predicted by the Department of up to \$277 million.

While the average annual cost to incarcerate an inmate in a state institution is \$26,690, the average cost for an inmate in the Northern California Women's Prison (NCWF) is \$38,764.

COMMENTS:

CDC estimates that the closure of the Northern California Women's Prison would require the transfer of 630 inmates to other facilities and would result in a savings of \$4.3 million in 2002-03 and \$10.2 million in future years. This includes annual maintenance costs of \$2 million a year which may no longer be needed should the property be sold or converted to another use.

The closure of a NCWF would allow the department to save an average of \$38,764 per inmate annually. Since this is higher than the statewide average cost of incarceration the closure of NCWF would place downward pressure on the department's average cost per inmate. While the savings associated with the closure of NCWF would be offset by the costs to transfer the inmates to another lower cost facility, the net savings to the state would be \$13,557 per inmate.

Closure of this facility would require accompanying trailer bill language

ITEM 5420 DEPARTMENT OF CORRECTIONS**ISSUE 2: CLOSURE OF CALIFORNIA INSTITUTE FOR WOMEN****BACKGROUND:**

The California Department of Corrections (CDC) is currently experiencing a decline in its female inmate population. From 11,500 as of June 30, 1999, the department estimates 9,800 by the end of the budget year. In total, CDC has 2,600 excess beds for female prisoners statewide. This surplus unused capacity may be a contributing factor in the budgetary shortfall predicted by the Department of up to \$277 million.

While the average annual cost to incarcerate an inmate in a state institution is \$26,690, the average cost for an inmate in the California Institution for Women (CIW) is \$35,897

COMMENTS:

CDC estimates that the closure of the California Institution for Women (CIW) prison would require the transfer of 1,608 inmates to other facilities and would result in a savings of \$15 million in 2002-03 and \$25.7 million in future years. This includes annual maintenance costs of \$3 million a year which may no longer be needed should the property be sold or converted to another use.

The complete closure of a CIW would allow the department to save an average of \$35,897 per inmate annually. The closure of this institution would place downward pressure on the average cost per inmate. While the savings associated with the closure of NCWF would be offset by the costs to transfer the inmates to another lower cost facility, the net savings to the state would be \$11,692 per inmate.

Should the committee act to close CIW it would require accompanying trailer bill language

ITEM 8100 OFFICE OF CRIMINAL JUSTICE AND PLANNING**ISSUE 1: WAR ON METHAMPHETAMINE GRANTS**

(Dollars in Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
15,000	-5,000	10,000

BACKGROUND:

The Budget Act appropriated \$15 million from the General Fund to counties primarily in Central and Northern California to augment previous state and federal efforts against the manufacturing and distribution of methamphetamine. Based upon the estimates from the Federal Government approximately 70 percent of the state's methamphetamine production occurs in the federal central district of California. Funding was not provided to counties included in that district which includes Los Angeles, Riverside, Orange and San Bernardino Counties.

Due to the anticipated fiscal constraints in the Budget Year, the Administration proposes a reduction of \$5 million or 33 percent of the grant for 2002-03.

COMMENTS:

While the production and distribution of methamphetamine is a statewide problem, based on federal statistics, this grant program does not provide funding to areas of the state that may produce up to 70 percent of the state's methamphetamines.

As part of the May Revision, the Administration proposed a 50 percent reduction of funding for most General Fund grants. The committee may want to reduce this grant by a \$7.5 million or an additional \$2.5 million over the Governor's recommendation to match the reduction proposed to other General Fund grant programs within the department.