

AGENDA ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Juan Arambula, Chair

TUESDAY, APRIL 22, 2008, 1:30 PM
STATE CAPITOL, ROOM 447

CONSENT CALENDAR		
ITEM	DESCRIPTION	
0650	OFFICE OF PLANNING AND RESEARCH	4
0750	LIEUTENANT GOVERNOR	4
9840	AUGMENTATION FOR CONTINGENCIES AND EMERGENCIES	4
0845	DEPARTMENT OF INSURANCE	5
ISSUE 1	CREDIT CARD TRANSACTION FEES	5
1880	STATE PERSONNEL BOARD	5
ISSUE 1	MEDICAL OFFICE	5
1920	STATE TEACHERS' RETIREMENT SYSTEM	6
ISSUE 1	INVESTMENT MANAGEMENT AND SUPPORT	6
ISSUE 2	MEMBER ACCOUNT SERVICES	6
ISSUE 3	DISABILITY AND SURVIVOR BENEFITS	6
ISSUE 4	CUSTOMER SERVICE	6
ISSUE 5	COMMUNICATIONS	6
ISSUE 6	GOVERNMENTAL AFFAIRS AND PROGRAM ANALYSIS	7
ISSUE 7	CLIENT OUTREACH AND GUIDANCE	7
ISSUE 8	FINANCE LETTER	7
CS 31.00	CONTROL SECTION 31.00 – ADMINISTRATIVE PROCEDURES FOR SALARIES AND WAGES	7

Vote Only Items		
ITEM	DESCRIPTION	
1920	STATE TEACHERS' RETIREMENT SYSTEM	8
ISSUE 1	LEGAL SERVICES	8
ISSUE 2	LEGAL SERVICES/COMMUNITY PROPERTY	8
ISSUE 3	HUMAN RESOURCES OFFICE	8
ISSUE 4	HUMAN RESOURCES OFFICE	9
ISSUE 5	VOICE OF THE CUSTOMER	9
ISSUE 6	QUALITY & TRAINING SERVICES	9
ISSUE 7	FACILITIES MANAGEMENT, PLANNING AND SERVICES	10
ISSUE 8	ACCOUNTING	10

ISSUE 9	INFORMATION TECHNOLOGY SERVICES	10
---------	---------------------------------	----

OPEN ITEMS – LIMITED DISCUSSION		
ITEM	DESCRIPTION	
0890	SECRETARY OF STATE	11
ISSUE 1	BUDGET BALANCING REDUCTION – 10 PERCENT CUT	11
1100	CALIFORNIA SCIENCE CENTER	13
ISSUE 1	CALIFORNIA AFRICAN AMERICAN MUSEUM – BUDGET BALANCING REDUCTION	13
1700	DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING	14
ISSUE 1	BUDGET BALANCING REDUCTION	14
1705	FAIR EMPLOYMENT AND HOUSING COMMISSION	16
ISSUE 1	BUDGET BALANCING REDUCTION	16
2320	DEPARTMENT OF REAL ESTATE	17
ISSUE 1	FISCAL AND BUSINESS SERVICES	17
8320	PUBLIC EMPLOYMENT RELATIONS BOARD	18
ISSUE 1	BUDGET BALANCING REDUCTION	18
ISSUE 2	LEGAL SUPPORT	19
ISSUE 3	HUMAN RESOURCES WORKLOAD	20
8380	DEPARTMENT OF PERSONNEL ADMINISTRATION	21
ISSUE 1	BUDGET BALANCING REDUCTION – LABOR RELATIONS	21
ISSUE 2	BUDGET BALANCING REDUCTION – RURAL HEALTH CARE EQUITY PROGRAM	22
8620	FAIR POLITICAL PRACTICES COMMISSION	23
ISSUE 1	BUDGET BALANCING REDUCTION /APRIL FINANCE LETTER	23
8640	POLITICAL REFORM ACT OF 1974	24
ISSUE 1	BUDGET BALANCING REDUCTION	24

ITEMS TO BE HEARD		
ITEM	DESCRIPTION	
0650	OFFICE OF PLANNING AND RESEARCH	25
ISSUE 1	CALIFORNIA VOLUNTEER MATCHING NETWORK INCREASE	25
ISSUE 2	CESAR CHAVEZ DAY GRANTS	26
8860	DEPARTMENT OF FINANCE	27
ISSUE 1	ADDITIONAL ESTIMATES STAFFING	27
ISSUE 2	MAY REVISION DATE CHANGE	28
ISSUE 3	OUT OF STATE TRAVEL REVIEW	29
	2PM TIME CERTAIN PRESENTATION FOR STRS	
1920	STATE TEACHERS' RETIREMENT SYSTEM	30
ISSUE 1	PERSONAL PROPERTY FOR NEW HEADQUARTERS PROJECT	30
ISSUE 2	SUPPLEMENTAL BENEFITS MAINTENANCE ACCOUNT (SBMA) PROPOSAL	31
ISSUE 3	LAO ANALYSIS	32
ISSUE 4	GOVERNMENTAL AFFAIRS AND PROGRAM ANALYSIS	32
0845	DEPARTMENT OF INSURANCE	33
ISSUE 1	WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM	33
ISSUE 2	GENERAL FUND TAX COLLECTION PROGRAM	34
ISSUE 3	LIFE AND ANNUITY CONSUMER PROTECTION PROGRAM	34
ISSUE 4	TELECOMMUNICATIONS POSITIONS	35
ISSUE 5	AUTOMOBILE RATING REGULATION WORKLOAD	36
ISSUE 6	ADA WORKLOAD COMPLIANCE	37
ISSUE 7	FINANCE LETTER – PAPERLESS WORKFLOW SYSTEM	38
ISSUE 8	EXECUTIVE LIFE INSURANCE COMPANY	39
1100	CALIFORNIA SCIENCE CENTER	40
ISSUE 1	FINANCE LETTER	40
1110/1111	DEPARTMENT OF CONSUMER AFFAIRS	41
ISSUE 1	FINANCE LETTER	41
ISSUE 2	BOARD OF BARBERING AND COSMETOLOGY	42
ISSUE 3	SPEECH – LANGUAGE PATHOLOGY & AUDIOLOGY BOARD	42
ISSUE 4	BUREAU FOR PRIVATE POSTSECONDARY EDUCATION	43
8500	BOARD OF CHIROPRACTIC EXAMINERS	44
ISSUE 1	AUDIT	44
ISSUE 2	FINANCE LETTER	45
8530	BOARD OF PILOT COMMISSIONERS	47
ISSUE 1	FINANCE LETTER	47

CONSENT ITEMS

ITEM 0650 Office of Planning and Research

The Administration submitted a Finance Letter requesting:

- ◆ The transfer of the Governor's Mentoring Partnership program (and \$107,000) from the Department of Alcohol and Drug Programs to the California Volunteers program in the Office of Planning and Research (OPR); and
- ◆ A technical correction to reflect the proper allocation of federal funds for the OPR programs.

ITEM 0750 Lieutenant Governor

Under California's Constitution, the Lieutenant Governor serves as Acting Governor whenever the Governor is absent from the state, and automatically becomes Governor if a vacancy occurs in the Office of Governor. The Lieutenant Governor is also President of the Senate and votes in case of a tie.

The Lieutenant Governor serves on the Board of Regents of the University of California, the Board of Trustees of the California State University system, and the State Lands Commission. In addition, under state statutes, the Lieutenant Governor chairs the California Commission for Economic Development, which provides support and guidance to the Governor, Legislature and private sector regarding the development of California's economy. The Lieutenant Governor is also a member of the State Job Training Coordinating Council and the California Emergency Council.

The Governor's proposed budget includes \$2.8 million for the Lieutenant Governor, this reflects a 10 percent BBR proposal.

ITEM 9840 Augmentation for Contingencies and Emergencies

Each year, the Budget Act includes appropriation items in organization 9840 to be used to supplement department's appropriations that are insufficient due to unanticipated expenses or emergency situations. There are three separate appropriations, one for each fund type - General, special, and non-governmental cost funds. These appropriations are allocated to other departments by the Department of Finance based upon the determination of need.

The Governor's proposed budget includes \$74.1 million (\$44.1 million General Fund) for the Augmentation for Contingencies and Emergencies line item. This reflects a \$4.9 million BBR reduction.

ITEM 0845 DEPARTMENT OF INSURANCE

The Governor's Budget requests \$120,000 (Special Fund) to cover the increase in credit card convenience fees associated with internet and telephone producer licensing services.

ISSUE 1: CREDIT CARD TRANSACTION FEES

Credit card fee costs have increased as the Department has better utilized internet services. Since 2002-03, costs have increased by over \$400,000 per year. The Department has largely absorbed these costs up until this point.

ITEM 1880 STATE PERSONNEL BOARD

The State Personnel Board (SPB) is responsible for California's civil service system. The SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor's proposed budget includes \$26.5 million (\$5.5 million General Fund) for SPB. This is an increase of \$3 million (no increase in general fund expenditures).

ISSUE 1: MEDICAL OFFICE STAFFING

The Governor's Budget proposes 2 positions and \$295,000 in reimbursement authority for the Medical Office to respond to increased fitness for duty evaluations.

BACKGROUND

Similar to the psychological screenings discussed in SPB's previous hearing, the Medical Office completes fitness for duty evaluations for peace officer applicants, as well as some other positions requiring fitness for duty evaluations (such as Department of Transportation workers).

COMMENTS

SPB projects approximately 4,400 medical evaluations will be necessary next year. This is down from their original projection of 5,000.

This item was held as Assemblymember Cook had inquired about how many Department of Transportation (DOT) workers this included. The Board quickly responded to committee staff showing that with 742 evaluations, CalTrans is second only to CHP in number of evaluations.

There was proposed SRL language at the previous hearing in regards to tracking actual workload regarding these evaluations.

ITEM 1920 State Teachers' Retirement System**Issue 1: Investment management and Support**

The Governor's Budget proposes an augmentation of \$1.2 million from the Teachers' Retirement Fund for seven positions to handle the increased workload and complexity of the investment portfolio, special projects, and focused investment strategies.

Issue 2: Member Account Services

The Governor's Budget proposes augmentation of \$130,000 and two positions to provide oversight of audit compliance by employers following an audit, and to provide testing services for STRS ongoing automation projects.

Issue 3: Disability and Survivor Benefits

The Governor's Budget proposes \$563,000 and 8 positions to address increased workload issues related to processing disability cases.

Issue 4: Customer Service

The Governor's Budget proposes \$136,000 to address increased workload for the Member Information Center and Member Call Recording systems.

Issue 5: Communications

The Governor's Budget proposes \$721,000 and five positions to enhance STRS' communication services as well as support new initiatives including improved web-based communication and member learning tools.

Issue 6: Governmental Affairs and Program Analysis

The Governor's Budget proposes \$677,000 and five positions to continue implementing "Pension2" program, the positions will provide marketing, outreach to members, and administrative support. Pension2 provides services to STRS members for additional savings beyond their Defined Benefit provided by STRS. Many members can benefit from investing in a 403(b) plan. This program provides services to help encourage such savings.

Issue 7: Client Outreach and Guidance

The Governor's Budget proposes \$468,000 and 5 positions to increase their benefit counseling service capacity. These positions will provide additional telephone counseling sessions, increase outreach services, and staff the existing toll-free advice number.

Issue 8: Finance Letter

This request is for a fund alignment so that a non-add Budget Act item for investment advisors will match the amount listed for this item. The adjustment is \$67.387 million in item 1920-002-0835.

CONTROL SECTION 31.00 – ADMINISTRATIVE PROCEDURES FOR SALARIES AND WAGES

Subsection (c) of Control Section 31.00 requires DOF to report to the JLBC monthly for certain administratively established positions or reclassifications. In practice, these reports only go to the LAO for review. To fully review and organize these documents would take considerable staff time, and it is not a priority for either the LAO or the Legislature.

COMMENTS

The LAO has suggested amendments to this control section to help both DOF and LAO operate more efficiently in regards to this reporting requirement, while still ensuring the required information is available. The LAO proposed language is:

(c) The Department of Finance shall, for a period of not less than two years, keep and preserve documentation concerning (1) the authorization of any position not authorized for that fiscal year by the Legislature and (2) any reclassification to a position with a minimum step per month of \$6,808, which is equivalent to the top step of the Staff Services Manager II (Managerial) classification as of July 1, 2008. The department may use electronic means to keep and preserve this documentation.

VOTE ONLY ITEMS

ITEM 1920 STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 1: LEGAL SERVICES

The Governor's Budget proposes \$147,000 and one legal support position to assist in the areas of tax, investment, and contracts, and to act as a dedicated back-up to the current Staff Counsel IV.

COMMENTS

This fits with the State's goal of having succession plans in place within departments and agencies.

ISSUE 2: LEGAL SERVICES/COMMUNITY PROPERTY

The Governor's Budget proposes \$59,000 and an Office Technician to support the Community Property Office.

COMMENTS

This will replace the department's reliance on student help.

ISSUE 3: HUMAN RESOURCES

The Governor's Budget proposes two new positions and \$300,000 to support application processing and new focused recruitment and strategic support efforts.

This will allow STRS to consolidate the filling of vacant positions within the HR office. It will also improve the HR offices ability to provide services to hiring managers in a more expeditious fashion.

COMMENTS

This will provide efficiency within the STRS Human Resources process.

ISSUE 4: HUMAN RESOURCES OFFICE

The Governor's Budget proposes additional resources for the Human Resources (HR) office of \$262,000 and 3 positions specifically related to new information technology applications and related services.

These positions will assist in the implementation of a new STRS HR management information system, integration of the State Controller's 21st Century Project, and other related services.

ISSUE 5: VOICE OF THE CUSTOMER

The Governor's Budget proposes one position and \$87,000 to meet STRS growing research obligations and move forward with key program initiatives including trends research and analysis, new survey research, and increased participation in Benchmarking efforts.

Other departments within STRS are able to request surveys and other services through this department, and the program has gained acceptance over the past several years. As such, the demand for services continues to grow, requiring expanded resources.

COMMENTS

The product of this department is research and information that assists other departments within STRS to better perform their duties.

ISSUE 6: QUALITY & TRAINING SERVICES

The Governor's Budget proposes \$262,000 and 3 positions to improve the STRS Balanced Scorecard performance management system.

The Balanced Scorecard helps STRS monitor how its efforts help it achieve their strategic objectives. These efforts have moved beyond data collection and now assist in identifying meaningful business metrics.

COMMENTS

The outcomes of these efforts help STRS leadership identify and understand how activity-based metrics lead to outcome measures.

ISSUE 7: FACILITIES MANAGEMENT, PLANNING AND SERVICES

The Governor's Budget proposes \$290,000 and five positions to replace limited-term staffing for the Central Mail and Scan Facilities. The need for these positions is ongoing and they will expire in April of 2008.

These positions will also assist with preparations for moving to the new office headquarters.

COMMENTS

The need for these positions is ongoing and staffing should reflect such.

ISSUE 8: ACCOUNTING

The Governor's Budget proposes \$325,000 and 4 positions to continue to meet accounting principles, laws and regulations. These positions will address workload issues, and enable management in the department to focus on managerial duties rather than take on new projects as has currently been the practice.

ISSUE 9: INFORMATION TECHNOLOGY SERVICES

The Governor's Budget proposes \$611,000 to establish 14 positions within the Enterprise Initiatives and Technology division. This request includes conversion of five existing consulting staff to state employee positions.

The funding request is for \$110,529 for operating expenses and equipment, with the remaining \$500,000 requested for IT products to procure IT infrastructure enhancements. The staffing costs are all being covered by savings realized due to data center services rate reduction as well as conversion of 5 consulting positions to state positions.

COMMENTS

This proposal shows a good use of existing resources to achieve the departments' goals.

OPEN ITEMS

ITEM 0890 SECRETARY OF STATE

The Secretary of State (the Office), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The Office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and perfecting security agreements. In addition, the Office is responsible for the appointment of notaries public, enforcement of notary laws, and preservation of documents and records having historical significance. All documents filed are a matter of public record and of historical importance. They are available through prescribed procedures for public review and to certify authenticity.

ISSUE 1: BUDGET BALANCING REDUCTION – 10 PERCENT CUT

The Governor proposed a 10 percent cut for the Secretary of State's office, but did not allocate how those cuts should be made. A 10 percent cut is equivalent to \$3.505 million.

The Secretary of State's office has proposed a reduction plan that will reduce costs associated with the printing and mailing of the Voter Information Guide (VIG). Specific proposed changes include:

- Eliminating perforation and special gluing for the pullout guide;
- Eliminating the use of color ink;
- Using lighter weight newsprint;
- Reducing the overall dimensions of the guide; (requiring a statutory change)
- And eliminating duplicate mailings to households (requiring a statutory change)

COMMENTS

The discussion in the first hearing on this subject centered on the proposal to eliminate duplicate mailings of Voter Information Guides (VIG) to households. The Committee asked the SOS to return with other options for achieving the cost reductions.

Of the total proposed cut of \$3.5 million, approximately \$1.5 million of it comes from eliminating duplicate mailings to households. The SOS has a total GF admin. budget of \$35 million and \$12.5 million of that is for "special items of expense" which funds election costs such as the VIG. The SOS proposed cuts come from, the special items of expense. Another \$10.5 million in expenses cover rent costs.

This leaves approximately \$12 million remaining for the \$1.5 million cut. The cut could only be achieved through large staffing reductions in IT, elections, archives, or political reform divisions. These are very small divisions and cuts of this magnitude would likely drastically reduce core services provided.

The primary options for the committee are to:

- 1) Approve the Departments Proposed reduction (total cut of \$3.5m)
- 2) Approve the proposed reduction buy minus the amount that would have been from the changed mailing practices (total cut of approximately \$2m)
- 3) Cut somewhere between \$2 and \$3.5 million and make the SOS find places to cut without changing their VIG mailing practices.

ITEM 1100 CALIFORNIA SCIENCE CENTER

The California Science Center is an educational, scientific, and technological center located in Exposition Park, a 160-acre tract in south Los Angeles. The California African American Museum (CAAM), also included in the park, provides exhibitions and programs on the history, art, and culture of African Americans.

The California Science Center is a public-private partnership between the State of California and the not-for-profit California Science Center Foundation. The Science Center is administered by a nine-member board of directors appointed by the Governor. The not-for-profit California Science Center Foundation provides support for Science Center exhibits and programs.

The Governor's proposed budget includes expenditures of \$26 million (\$20 million General Fund) and 191 positions for the Science Center. This is an increase of \$3 million.

ISSUE 1: BUDGET BALANCING REDUCTION – CALIFORNIA AFRICAN AMERICAN MUSEUM (CAAM)

The Governor proposes a reduction of \$249,000 (General Fund) to the CAAM budget. The majority of the reduction is set to come out of support for public exhibitions curators, shipping, and program professional services.

BACKGROUND

The Museum occupies a 44,000 square foot facility that includes 3 full-size exhibition galleries, a theater gallery, a 14,000 square foot Sculpture Court, a conference center/special events room, an archive and research library, administrative offices, exhibit design and artifact storage areas.

COMMENTS

CAAM is the only State agency mandated to collect, preserve, maintain, and interpret for the public the art, history, and culture of African Americans.

Additionally, entering into new fundraising efforts for another expansion, it is critical for CAAM to be able to show potential donors what it has to offer. Without curators they may lose the ability to bring in new funding.

ITEM 1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The Department of Fair Employment and Housing (DFEH) is responsible for protecting the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. DFEH also routinely provides technical assistance to employers, businesses, and housing providers regarding their responsibilities under the law.

The Department's jurisdiction extends to individuals, private or public entities, housing providers, and business establishments within the State of California.

ISSUE 1: BUDGET BALANCING REDUCTION

The Governor's BBR proposes to reduce the funding for DFEH by nearly \$1.9 million and 18 positions (10 supervisors and administrative positions, 8 investigators). The proposed reduction also includes \$201,000 in Operating Expenses & Equipment.

DFEH states that discrimination claims are required to be completed within statutory time frames, and these reductions could be detrimental to their ability to meet those timelines. DFEH is responsible for discrimination cases involving age, ancestry, color, disability, denial of family and medical care leave, marital status, medical condition, race, religion, sexual orientation, gender, etc. Further, DFEH has jurisdiction over private and public entities including corporations, contracts granted by the State, and all State departments and local governments.

There are currently a total of 107 investigative consultants (85 for employment claims and 22 for housing claims).

In the early 2000's the DFEH budget was cut more dramatically than the current proposal. The loss of investigative staff led to 94 "expired" cases in 2002-03 and 189 expired cases in 2003-04. Expired cases are those cases not investigated in the required one-year time frame. Though the Department expects smaller numbers of expired cases from these cuts, they do expect this reduction to lead to having expired cases, leading to a loss of federal funds and hardship for the claimants.

COMMENTS

DFEH states that the loss in federal funds is not expected to be less than \$100,000 but could be as high \$500,000. This estimate was based on existing workshare agreements the Department has with the federal Housing and Urban Development (HUD), and U.S. Equal Employment Opportunity Commission (EEOC). Cases are often dual filed with DFEH and HUD or EEOC. For those cases, the Department is reimbursed \$540 for each employment case and \$2,400 for each housing case. If cases cannot be investigated in the necessary time frame, reimbursement will not be paid.

In order to minimize the loss of federal funds, those cases dual filed often receive priority. What this means is that cases that are only California specific law, because our civil rights protections extend further than federal law, are more likely to expire and not receive an administrative investigation. This undermines the Legislature's intent to provide these protections to California citizens.

In a time when the housing market is in great turmoil, and the job market is in decline, it is very likely that DFEH will see an increase in claims. These claimants are dependent on the outcome of these claims for potential financial and employment rectification. Delays in this process extend the hardship on those individuals.

The Department only has 1 year from the date of filing to investigate cases. If that timeline is not met, those claimants lose their right to an administrative remedy and are forced into the court system.

ALTERNATIVE

The Committee expressed concerns with these cuts in the original hearing. In response, staff worked with the Department to determine an alternative that achieves reduced, but still significant savings, and will also help to minimize loss of federal funds.

Federal funding is dependant upon prompt investigation of cases. By limiting the reduction to the administrative staff, rather than include the 8 investigative consultants, the loss of federal funds should be minimized. The Department has also asked that 2 of the administrative positions be restored in order to provide necessary services to those 8 investigative consultants (1 district administrator and 1 office technician).

The remaining budget reduction would consist of the original \$200,000+ in OE&E, as well as 8 administrative positions for a total reduction of approximately \$900,000.

ITEM 1705 FAIR EMPLOYMENT AND HOUSING COMMISSION

The Fair Employment and Housing Commission is a quasi-judicial body responsible for the promotion and enforcement of the state's civil rights laws concerning discrimination in employment, housing, public accommodations, family, medical and pregnancy disability leave, hate violence and threats of violence. The seven members of the Commission are appointed by the Governor and confirmed by the Senate.

ISSUE 1: BUDGET BALANCING REDUCTION

The Governor's proposed BBR cut \$117,000 by eliminating one hearing officer from the Commission. This will leave the Commission with only two full time Hearing Officers.

These officers handle mediation and settlement conferences prior to going to hearing. Both mediation and settlement conferences are less expensive than hearings. Losing a Hearing Officer could compromise the Commission's ability to adequately offer these services. When these alternative methods aren't successful, the Hearing Officer cannot preside over the actual hearing because they have been privy to information that may or may not be accepted into the hearing. This means that with only two full time Hearing Officers, there will be very limited flexibility on who can hear what cases.

COMMENTS

While not a direct reduction in the General Fund portion of FEHC's budget, they are incurring a reduction in reimbursement funds from DFEH, which provides general fund savings. This reduction appears to be manageable with minimal impact on the commission's ability to do its job. Changes in the circumstances since development of the BBR's has changed the need for regulatory and statutory changes as listed in the BBR. Therefore, those impacts are no longer real.

The elimination of one of three hearing officers, on the other hand, is likely to delay cases and impair the ability of the Commission to meet its core mission.

ITEM 2320 DEPARTMENT OF REAL ESTATE

The mission of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor's proposed budget includes expenditures of \$45 million (General Fund) and 336 positions for the Department. This is a decrease of \$2.5 million (General Fund).

ISSUE 1: FISCAL AND BUSINESS SERVICES

The Governor's budget proposes 3 positions and \$139,000 (Real Estate Fund) to provide support services to the Sacramento Office.

BACKGROUND

While some e-licensing efforts have been implemented, much of DRE's duties require physical handling of mail from the 539,000 licensed individuals. E-licensing has cut incoming mail from approximately 351,000 pieces in 2004-05 to 252,000 in 2007-08 where it's projected to level out.

Despite this reduction in mail, the number of licensee's requiring services has remained fairly level. Additionally, the Department has not received increased staffing to help with these services in well over a decade, leaving a staff shortage even despite the decreased incoming mail.

COMMENTS

E-licensing has demonstrated the ability to significantly reduce the workload for the Department of Real Estate. In response to committee questions, the Department provided a good deal of information on existing technological efforts being undertaken and their positive impact on the Departments ability to provide services

LAO

The LAO feels that workload exists to justify 2 of the 3 proposed positions. Further, as the Department has been using its temporary help to partially address the workload, they recommend using that funding to cover part of the cost of this proposal.

The LAO recommends: 1) reduce the request by \$92k and 1 position (Office Assistant); thereby, leaving DRE with about \$47,000 and two new positions (Program Technicians), and (2) redirect approximately \$47,000 from DRE's temporary help blanket to cover the balance of funds needed to support the positions.

ITEM 8320 PUBLIC EMPLOYMENT RELATIONS BOARD

It is the mission of the Public Employment Relations Board to administer and enforce California public sector collective bargaining laws in an expert, fair and consistent manner, to promote improved public sector employer-employee relations, and to provide a timely and cost effective method through which employers, employee organizations, and employees can resolve their labor relations disputes.

The Governor's proposed budget includes expenditures of \$6.5 million (General Fund) and 47 positions.

ISSUE 1: BUDGET BALANCING REDUCTION

The Governor proposed a Budget Balancing Reduction in the amount of \$510,000 (General Fund) and 3 positions.

BACKGROUND

As discussed during the Special Session budget hearing, this BBR proposed to eliminate the Board's fact finding budget, close the Oakland office, eliminate two legal support staff positions (which would be offset by Issue #2), eliminate one HR position, and reduce its travel and library budgets.

Closing the Oakland Office will require much more travel by the public as that will leave only the Sacramento and LA offices. The Oakland Office would not be closed until January 1, 2009 for a savings of approximately \$140,000 with full savings of \$280,000 in 2009-10. Closing the Oakland office will also require a change to regulations, as several counties are currently required to report to that office. Similarly, cutting travel funds will make it difficult to accommodate bay area residents by coming closer to them.

The two legal support positions that would be eliminated are being added by the BCP discussed in Issue #2. As such, approving this piece of this BBR and the BCP will essentially leave the Board where it is at now.

Statute requires that specified parties participate in the fact-finding process, and that PERB will pay for the fact finder. That statute would have to be changed in order to eliminate that piece of the budget.

COMMENTS

It is unclear the affect closing the Oakland office could have on those who utilize the Board's services in the area. The Board provided data showing that over 25 percent of informal settlement conferences take place in the Oakland office.

Estimating a 9-month layoff process, PERB would have to lay off over 50 percent of either their staff counsel or administrative law judges (or a combination of both) in order to achieve the \$140,000 reduction attributed to the closure of the Oakland office. This sort of reduction would dramatically reduce PERB's ability to perform its core services.

ISSUE 2: LEGAL SUPPORT

The Governor's Budget proposes two positions and \$145,000 (General Fund). As discussed in Issue 1, these two positions will be eliminated if the BBR is approved.

BACKGROUND

Since 2001, PERB's jurisdiction has been expanded several times, and has more than doubled the number of employees they are responsible for, now at over 2 million. PERB's staffing level have failed to keep up with the expanded jurisdiction, and has been compounded by increasing rates of disputes being filed as well.

COMMENTS

A recent court case also has the potential to further expand the jurisdiction of PERB, which could increase the workload of the Board in the near future as well.

ISSUE 3: HUMAN RESOURCES WORKLOAD

The Governor's Budget proposes \$55,000 (General Fund) and one position to address HR workload.

BACKGROUND

In 1992-93, PERB eliminated its HR division and contracted with DGS for those services. Until 2006-07, these services were provided on an as needed basis, and charged as such. Costs varied between \$10,000 and \$20,000 depending on needs.

In March of 2007, DGS increased their costs to "per personnel year costs," meaning PERB would be charged for entire individuals annual salary, regardless of actual time used. This increased costs by \$45,000 in 2006-07.

COMMENTS

While the cost of this BCP is \$55,000, the Board would like to move their HR functions back to in-house to avoid future rate increases from DGS. Additionally, many HR and administrative tasks are being handled by other staff. Bringing on this position would consolidate those tasks, and allow existing staff to focus on their specified job duties.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

The Department of Personnel Administration (DPA) is the Governor's chief personnel policy advisor. The Department represents the Governor as the "employer" in all matters concerning State employer-employee relations. The Department handles issues related to salaries, benefits, positions classification, and training. Many of these duties are also shared with the State Personnel Board. For rank and file employees, these matters are determined through the collective bargaining process and for excluded employees, through a meet and confer process. The Department also administers the state employee deferred compensation programs.

The Governor's budget proposes total expenditures of \$108.5 million, with funding primarily from the General Fund (\$40 million) and the Flexelect Benefit Fund (\$27 million).

ISSUE 1: BUDGET BALANCING REDUCTION – LABOR RELATIONS

The Governor proposed a Budget Balancing Reduction of \$239,000 (General Fund) and 2 positions, resulting in reduced salary survey's being completed.

BACKGROUND

The DPA represents the Governor in collective bargaining agreements with employee unions. In those negotiations, DPA uses salary survey's to compare salaries of those employees in the union with other employees in comparable positions elsewhere in state government, in local government, and in private jobs. The Salary Survey's enable DPA to more accurately determine when pay increases are necessary as well, as how they will affect recruitment and retention efforts.

COMMENTS

In a year with 19 of 21 bargaining units having expired contracts or contracts that will expire by the end of this fiscal year, the committee expressed concerns over limiting the development of salary survey's to be used in contract negotiations.

The Department provided information showing that this reduction will not prevent them from conducting their statutorily required salary survey's, and that as such survey's are necessary over the coming years, they will continue to be able to provide them.

**ISSUE 2: BUDGET BALANCING REDUCTION – RURAL HEALTH CARE
EQUITY PROGRAM (RHCEP)**

The Governor proposed a Budget Balancing Reduction of \$515,000 (General Fund). This is a 10 percent cut made as part of the Governor's 10 percent across the board cuts.

BACKGROUND

The RHCEP provides reimbursements of certain health care expenses for State employees and annuitants who do not have access to an HMO. Annuitants that are not Medicare participants would have their subsidies cut from \$500 to \$450 annually, and Medicare participants would go from \$75 to \$67.50.

COMMENTS

There is no policy rationale for these cuts; they were just made as part of the Governor's 10 percent across the board cut. They do, however, produce a significant amount of savings. While it is not desirable to reduce payments to anyone, in a year where cuts are being proposed to programs that provide health care to the poor and children, it may be necessary to also reduce payments such as these.

The Committee asked for information regarding how many people are affected and where they are located. There are 7,776 annuitants in the program, with the largest participating counties being Shasta, Monterey, Lassen, Tuolumne, Sutter, Siskiyou, and Del Norte.

ITEM 8620 FAIR POLITICAL PRACTICES COMMISSION (FPPC)

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974, as amended by the voters and Legislature. The objectives of the Political Reform Act are to:

- Ensure that election campaign contribution and expenditure data is fully and accurately disclosed so that the voters may be fully informed and to inhibit improper financial practices.
- Regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.
- Provide for the disclosure of assets and income of public officials, which may affect their official actions, to avoid any conflicts of interest.
- Ensure that the state ballot pamphlet contains useful and adequate information so that the voters will not be entirely dependent upon paid advertising for information concerning state measures.
- Eliminate laws and practices that unfairly favor incumbents to provide for fair elections.
- Provide adequate mechanisms to public officials and to private citizens to ensure vigorous enforcement of the Act.

ISSUE 1: BUDGET BALANCING REDUCTION/APRIL FINANCE LETTER

The Governor proposed a 10 percent unallocated cut to the FPPC's budget of \$825,000. That cut was based on their overall budget of \$8.25 million. The Commission argued that much of their funding was authorized by voters through the Political Reform Act, and should not be included.

The Department of Finance submitted a letter on March 10th requesting the budget be adjusted to reflect a budget balancing reduction of \$359,000, \$466,000 less than the original proposed reduction.

COMMENTS

This reduction may still have an impact on the FPPC's ability to meet its core mission. The FPPC has indicated that few of its functions are separate from its functions required by proposition. They have not identified specific cuts, but services like their 800 help number that are heavily used by their constituents will likely have to be reduced.

ITEM 8640 POLITICAL REFORM ACT OF 1974

This budget identifies the amounts required to be appropriated by the Legislature to the Fair Political Practices Commission to carry out its duties under the Act, the amounts to be appropriated to other state agencies to carry out their duties under the Act, and, for informational purposes, the continuing appropriation made by the Act to the Commission, adjusted for any cost-of-living change.

ISSUE 1: BUDGET BALANCING REDUCTION – 10 PERCENT CUT

The Governor proposed a 10 percent cut for this line item, totaling \$275,000. This funding is disbursed to three entities. Their respective allocations would be:

Secretary of State will be reduced from 790,000 to 711,000

Franchise Tax Board will be reduced from 1,747,000 to 1,572,000

Department of Justice will be reduced from 216,000 to 195,000 (with the reduction taken in program 50 - law enforcement)

COMMENTS

This Item is required by the Political Reform Act of 1974 to provide a specified level of funding. Even with the proposed reduction in funding, the Item still meets the minimum required funding level.

There is no policy basis for this cut, just part of the Governor's 10 percent across the board reduction.

ITEMS TO BE HEARD

ITEM 0650 OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, legislative analysis, and acts as a liaison with local government. The Office oversees programs for small business advocacy, environmental justice, military affairs, eminent domain, and preservation of Indian sacred sites. In addition, the Office has responsibilities pertaining to state planning, the California Environmental Quality Act, joint land use planning with the military, permit assistance and environmental and federal project review procedures. The California Volunteers is charged with administering the federal AmeriCorps and Citizen Corps programs, coordinating volunteer activity related to disaster response, and increasing the number of Californians volunteering in the state.

The Governor's proposed budget includes \$52 million (\$9.5 million General Fund) for OPR, this reflects a \$1.1 million General Fund reduction in accordance with the 10 percent reduction BBR proposal.

ISSUE 1: CALIFORNIA VOLUNTEER MATCHING NETWORK INCREASE

The Governor's proposed budget includes an increase of \$639,000 (General Fund) and 2.8 positions to permanently establish the California Volunteer Matching Network (CVMN). (The funding includes a proposed increase of \$766,000 and an offset of \$127,000 in accordance with a 10 percent BBR proposal.)

COMMENTS

The CVMN was established in the 2006-07 Budget Act on a two-year limited term basis and was funded with \$1.1 million annually from the General Fund. The purpose was to launch a web site to pull together local volunteering opportunities and posts them all in a single, state-centered database. The funding also provided assistance to walk-in volunteer hubs, which are in 42 of the state's 58 counties.

The Governor's proposal would continue the CVMN and would provide funding for staff and resources to be used to continue the current marketing campaign for volunteering in California; to maintain, improve, and expand the capabilities of the online database; and to increase the number of and funding for local hubs.

The LAO recommends rejecting the Governor's proposal because: 1) the program duplicates other available services; and 2) despite the \$1.1 million budget, only 3,000 new volunteers were referred – a cost of about \$380 per new volunteer.

Given the magnitude of the state's fiscal crisis, the Subcommittee should consider rejecting the proposed increase and instead encourage the Administration to pursue private funds to continue the CVMN efforts.

ISSUE 2: CESAR CHAVEZ DAY GRANTS

The Governor's proposed budget includes a \$500,000 reduction in grant funds for the Cesar Chavez Day of Service and Learning program. The reduction is part of the Governor's 10 percent BBR strategy for making budget cuts.

COMMENTS

The Cesar Chavez Day of Service and Learning program is established in state statute with an annual appropriation of \$5 million (General Fund) to promote service to the communities of California in honor of the life and work of Cesar Chavez.

Under the program, California Volunteers makes grants to specified programs that engage students in community service that may qualify as instructional time on Cesar Chavez Day and meet certain criteria specified in statute.

These grants were suspended previously from 2003-04 through 2005-06, due to the state's budget shortfalls, and the LAO recommends doing so again in order to save an additional \$4.5 million (General Fund) in 2008-09.

The Subcommittee should consider approving the Governor's proposed reduction, but make clear that the Subcommittee may need to revisit this issue after the May Revision to consider additional reductions.

ITEM 8860 DEPARTMENT OF FINANCE

By statute, the Director of Finance serves as the Governor's chief fiscal policy advisor with emphasis on the financial integrity of the state and maintenance of a fiscally sound and responsible Administration.

The objectives of the Department of Finance (DOF) are:

- ◆ To prepare, present, and support the annual financial plan for the state.
- ◆ To assure responsible and responsive state resource allocation within resources available.
- ◆ To foster efficient and effective state structure, processes, programs, and performance.
- ◆ To ensure integrity in state fiscal databases and systems.

The Governor's proposed budget includes \$54.6 million (\$30.3 million General Fund) for the DOF.

ISSUE 1: ADDITIONAL ESTIMATES STAFFING

The Governor's proposed budget includes \$228,000 (General Fund) increase and one Principal Program Budget Analyst and a part-time retired annuitant to ensure the quality of analyses of the estimates in the Health and Human Services unit. The full-time position would work to improve unit training on estimates, constitute a permanent resource for unit staff, and provide greater attention to estimate issues during peak periods. The second position would serve seasonally to provide additional expertise and assistance during compressed review periods. The positions would be established on a three-year limited term basis.

COMMENTS

Estimates are submitted by the departments to DOF twice annually, once in the Fall and once again in the Spring. The Estimates package contains adjustments to enrollment and caseload, and also significant policy changes.

At present, the Health and Human Services unit at DOF has 21 analyst level or higher personnel. It would seem prudent for DOF to redirect existing personnel in the short-term to assist in the enhancing the Estimate process with other departments.

ISSUE 2: MAY REVISION DATE CHANGE

The Governor's proposed budget includes trailer bill language that changes the date May Revision is provided to the Legislature, from May 14 to May 21 beginning in 2009.

The May Revision provides an updated estimate of General Fund revenues, any proposals to reduce expenditures, or changes to reflect caseload enrollment or population changes. DOF indicates that it would get better quality information and analysis with the additional week.

COMMENTS

Under the current May 14 date, it is extremely difficult for the Legislature to hear the entire May Revision proposal, process all the budget amendments, get the bill Assembly and Senate versions of the budget to Conference Committee, work out all the differences between the houses, the differences between the parties, and the differences with the Governor all before the Constitutional deadline of June 15.

Delaying the May Revision by one week will make the chances of passing the budget by June 15th even more remote. While relations between this Administration and the Legislature are fairly cooperative – as evidenced by the recent Special Session budget actions – future Administrations may not work as well with the Legislature and could use the failure of meeting June 15th deadline as a tool against the Legislature during budget negotiations.

Therefore, the Subcommittee should consider denying this proposal in light of the additional constraints it would put on the Legislature in crafting the final budget within the existing deadline requirements.

ISSUE 3: OUT OF STATE TRAVEL REVIEW

The Governor's proposed budget includes trailer bill language that releases the DOF from reviewing Out of State Travel (OST) requests by state departments. Under current law, both the Governor's office and DOF review such requests. In this instance, DOF typically makes sure any OST request is not in excess of total requested OST schedules submitted by departments in the beginning of each fiscal year.

COMMENTS

DOF indicates this proposal is part of evaluating overall workload and eliminating, from their perspective, items of lesser value.

However, since this has to do with budget oversight, it seems as though this should remain a responsibility of the Department of Finance.

Therefore, the Subcommittee should consider denying the proposed trailer bill language.

TIME CERTAIN – 2PM

ITEM 1920 STATE TEACHERS' RETIREMENT SYSTEM

The mission of the California State Teachers' Retirement System (CalSTRS) is: "Securing the financial future and sustaining the trust of California's educators." The System's primary responsibility is to provide retirement related benefits and services to active and retired educators in public schools from pre-kindergarten through the community college system.

The Governor's Budget proposes \$8.8 billion from the Teachers' Retirement Fund and 846 positions, an increase of 60 positions and \$700 million.

ISSUE 1: PERSONAL PROPERTY FOR NEW HEADQUARTERS PROJECT

This proposal requests one-time funding of \$25 million (Teachers' Retirement Fund) to augment STRS support budget to procure the goods and services necessary to equip the new headquarters location and move approximately 1000 permanent and temporary positions in June 2009.

COMMENTS

STRS completed an analysis of options, including utilizing existing furniture, but due to age and logistics, they determined that new furniture would be the most effective / appropriate option.

With the massive amount of money proposed for this purpose, the Subcommittee may wish to have the LAO work on some reporting language to keep the Subcommittee informed on how these funds are spent.

**ISSUE 2: SUPPLEMENTAL BENEFITS MAINTENANCE ACCOUNT (SBMA)
PROPOSAL**

The Governor's Budget proposes changing the annual SBMA appropriation from 2.5 percent of prior-year teacher payroll to 2.2 percent, amending the law to guarantee CalSTRS members that they will receive the current SBMA benefit (80 percent of the purchasing power of the retiree's original monthly benefit, as measured by annual inflation increases), and proposes that the annual SBMA payments be made in two equal payments on November 1 and April 1 of each year.

This differs from existing law under which the SBMA benefit is not guaranteed, but is only provided to the extent funds are available. The specification of payment dates corresponds with this committee's action taken in Special Session to make the 2008-09 payment on November 1st.

The Governor's proposal puts the state at considerable risk for future costs. Because the benefit would no longer be contingent on available funds, any cost increases would fall to the state.

There are several other alternatives to the Governor's proposal that include variations in the state contribution rate, vesting vs. not vesting of the benefit, the percent of approved purchase power protection, and when to make the court required interest payments to STRS.

LAO

The LAO recommends that Legislature reject the Administration's proposed trailer bill language to (1) guarantee retirees' purchasing power benefits through the California State Teachers' Retirement System (CalSTRS) and (2) reduce General Fund costs by \$80 million in 2008-09. The LAO states that, "there are major risks in assuming that the proposed change will generate budget savings, and we are concerned about the idea of the state guaranteeing another benefit through CalSTRS, which serves employees of local districts."

The LAO points out that longstanding California case law in the area of public employees' retirement benefits requires that a government's changes in pension benefits resulting in disadvantages to employees be accompanied by "comparable new advantages" for those same employees.

Based on statements by CalSTRS' consulting actuaries, this proposal raises the strong possibility that state contribution rates would rise back to 2.5 percent of prior-year payroll or even higher after the budget year. As a result, the state could end up paying more each year under the administration's proposal.

COMMENTS

The Subcommittee may wish to direct staff to review all available alternatives to the Governor's plan to determine if any are appropriate for approval this year.

ISSUE 3: LAO ANALYSIS

The Public Employee Post-Employment Benefits Commission recommends that all public pension plans have periodic performance audits performed by independent auditors. Current law requires STRS to have an independent audit annually, but restricts the ability of the Bureau of State Audits or Department of Finance to review STRS' books and operations. This restriction lacks clarity and could be construed to limit the Legislature's authority to request performance audits of certain STRS programs.

Section 20228 of the Government Code requires STRS to have its financial records audited annually by an independent accountant. The law, however, states that "*the audits shall not be duplicated by the Department of Finance (DOF) or the State Auditor.*" In state government, DOF and the Bureau of State Audits (BSA) are the principal entities that the Legislature may direct to conduct performance audits of government programs. This code section is unclear if these restrictions also apply to DOF and BSA concerning performance audits.

COMMENTS

The Subcommittee may wish to request a response from STRS on the LAO recommendations.

ISSUE 4: GOVERNMENTAL AFFAIRS AND PROGRAM ANALYSIS

The Governor's Budget proposes \$87,000 and one position to represent STRS before the legislature, constituent groups, and the public.

With term limits bringing new legislators in every election and an increased public visibility of pension funds there is an increased need for STRS to maintain a presence in the legislature to provide information and direction on pension issues.

COMMENTS

STRS currently has 4.5 positions in this department and has not provided particularly detailed workload data.

ITEM 0845 DEPARTMENT OF INSURANCE

The Insurance Commissioner regulates the largest insurance market in the United States, and the fourth largest insurance market in the World, with more than \$118 billion in direct premiums; enforces the California Insurance Code; and oversees the Department of Insurance.

The Department of Insurance conducts examinations and investigations of insurance companies and producers and works to ensure the financial solvency of companies so that they will meet their obligations to policyholders and claimants.

ISSUE 1: WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM

The Governor's Budget proposes a one-time augmentation of \$4 million (Special Fund) to be distributed to DA's for prosecution of Workers' Compensation Fraud through a competitive grant process.

The funding for this proposal is allocated by the Fraud Assessment Commission, and they approved this increase in funding on September 11th, 2007. This funding is requested on a one-time basis due to a scheduled report due on workers' compensation fraud. Once that report is completed and reviewed, the Department may look at making this funding permanent.

COMMENTS

The highest priorities in the Departments anti-fraud efforts deal with the investigation of persons/entities that drive up the cost of claims and insurance premiums.

These funds have been allocated for this purpose by the Fraud Assessment Commission. They provide necessary protection and enforcement for insurance companies and those they insure, and can help keep costs down for individuals and businesses in California.

The Subcommittee may wish to ask regarding the status of the report that is due from the Department.

ISSUE 2: GENERAL FUND TAX COLLECTION PROGRAM

The Governor's Budget proposes to shift \$2.122 million in tax collection costs from Special Funds to the General Fund. The Department is authorized to collect state business taxes from insurance companies, and that money goes directly into the State General Fund. Since 2002-03, these collection activities have been funding by the Department's Special Funds.

COMMENTS

The Department has presented no reason this shift needs to take place this year. The Fund Balance for the special funds being used is in good shape and can continue to bear the cost of these activities conducted by the Department of Insurance.

The fund being used is specified "for the support of the Department of Insurance as authorized by the budget act."

ISSUE 3: LIFE AND ANNUITY CONSUMER PROTECTION PROGRAM

The Governor's Budget proposes \$750,000 (Special Fund) for Local Assistance in the Life and Annuity Consumer Protection Program (LACPP). This program combats life insurance and annuity financial abuse. These funds will be allocated to DA's who submit grant applications for the funds. Some of the funding will also be used to provide consumer education regarding financial abuse related to life insurance and annuity products.

COMMENTS

These funds are a result of a settlement of an enforcement action reached by the Department with a life insurer, which required them to pay the Department for expanded LACPP expenditures over the next five years. In order to receive the funding, the Department must demonstrate a need, which this request will do.

This proposal also has TBL tied to it to delete the sunset provision for this program. It is set to sunset on Jan. 1, 2010. The Department wishes to eliminate the sunset, in part, due to the funds in this request. They do not, however, address the efficiency of the program in general. The Subcommittee may wish to ask the Department to bring forth justification for continuation of the program, including data on effectiveness of the program. There is no reason this can't be done next year, still prior to the sunset date.

ISSUE 4: TELECOMMUNICATIONS POSITIONS

The Governor's Budget proposes extension of three limited-term positions and \$137,000 (Special Fund) to continue to provide support for the Telecommunications Infrastructure Replacement Project (TIRP).

These positions were approved on a limited term basis in 2005-06. The TIRP program modernized the out-of-date phone system in use by the Department. Amount other things, it enabled caller ID, unified messaging, and implemented 4 digit internal extensions.

There are currently three permanent staff and these three temporary staff in the telecommunications unit. The temporary staff is needed to continue on because TIRP has encountered approximately 18 months of delay due to changes to the RFP, replacement of the project manager, and other small changes.

COMMENTS

The network has three main hub sites (San Francisco, Los Angeles, and Sacramento), and each site is staffed by two telecommunications staff. Included in their duties at these sites is staffing a help desk for all employees. If these three positions expire, only one person would remain at each site to provide help desk support as well as complete the implementation of TIRP.

While the delay in the project is unfortunate, it does appear these staff may be necessary to finish the implementation.

ISSUE 5: AUTOMOBILE RATING REGULATION WORKLOAD

The Governor's Budget proposes 5 positions and \$475,000 (Special Fund) to address administrative hearing workload throughout the Department of Insurance.

The Department expects increased demand for insurance rate hearings based on:

- 1) New requirements that automobile insurance rates and class plans must be submitted with an accompanying rate applications.
- 2) New authority of the Commissioner to require a new rate application under specified circumstances. The Commissioner wishes to use this authority in cases where insurers appear to have excess rates.
- 3) New hearings were recently authorized based on earthquake insurance and reinsurance costs.
- 4) Expansion of viable grounds for use of requests for variance from a set rate formula are expected to increase the number of requests.

COMMENTS

Rate applications are deemed approved 180 days after they are received by the department. As such, it is important for the Department to have adequate staffing to meet the increased needs based on recent regulatory and statutory changes.

The projected staff need is based on projected increases based on a multitude of changes. The Subcommittee may wish to ask the Department how sure they are this workload will materialize.

ISSUE 6: ADA WORKLOAD COMPLIANCE

The Governor's Budget proposes \$83,000 for temporary help to address ADA workload in the Departments Equal Employment Opportunity (EEO) Office. This office is responsible for addressing issues of discrimination and harassment in the workplace. They manage the complaint process, conduct investigations, and provide training. Further, they are responsible for ADA compliance.

All these responsibilities currently fall on one permanent position, the EEO Officer, and one temporary help analyst. When these two are engaged in an investigation or training, it can greatly reduce the Office's effectiveness at monitoring discrimination issues as well as handling new issues as they come in.

COMMENTS

This office has many responsibilities under State and Federal law. They request this position to help meet those statutorily required responsibilities.

ISSUE 7: FINANCE LETTER – PAPERLESS WORKFLOW SYSTEM

This Finance Letter requests an augmentation of \$2.787 million (Special Funds) to implement the planning and procurement phase for a centralized electronic document management system. The system is intended to offer electronic forms for customers to use, electronic storage and retrieval of documents to improve the Departments efficiency, and allow electronic filing of reports and documents by insurance companies.

This proposal will address a huge storage problem the Department has encountered due to its current paper-only process. In addition to space issues for storage, timely access to documents is very difficult in this outdated paper only system. This project will create a good deal of efficiency within the Department.

Many insurance companies are already equipped themselves with the necessary technology to implement paperless communication with the Department. They are just waiting for the Department to catch up.

The total project implementation cost, expected to be implemented in 2011, is estimated at \$10.8 million with an estimated annual Maintenance and Operation cost of \$1.2 million starting in 2011-12.

COMMENTS

It is hard to believe that the Department of Insurance still operates largely in a paper-only environment. The efficiency gains this project will bring the department are clear and necessary. The Office of the State Chief Information Officer has reviewed and approved this request, and will continue to monitor and oversee the implementation of this proposal.

ISSUE 8: EXECUTIVE LIFE INSURANCE COMPANY

The Executive Life Insurance Company (ELIC) was a multibillion-dollar life insurance company that had its principal legal residence in California and operated in the State from 1962 to 1991. On April 11, 1991, acting on a court conservation order, the Department of Insurance took over the operation of ELIC.

As with any insolvency of a public company, investors and creditors risk substantial losses. This was no different in the case of the policyholders of ELIC who incurred significant losses when the commissioner, in his role as regulator, determined that ELIC's liabilities far outweighed its assets and, on April 11, 1991, obtained a court order to take over its operations to conserve the company.

In August 2005 the department estimated that losses related to original policy rights for opt-in policyholders were \$279 million and that opt-out policyholders had lost \$657 million, for a total estimated loss of \$936 million. When the Bureau of State Audits estimated the economic loss to policyholders, and included several specific factors that the department's analysis did not include, and estimated the total economic losses for both opt-in and opt-out policyholders to be \$3.1 billion. The department's model estimates policyholders received 90 percent of their original policy rights. Our model estimates policyholders recovered 86 percent of their expected ELIC account values. According to legal counsel for the department, neither the court-approved ELIC rehabilitation plan, the ELIC Enhancement Agreement (enhancement agreement), nor the agreements with third parties (collectively referred to in this report as the ELIC agreements²) give the commissioner, in his role as conservator, rehabilitator, and liquidator of the ELIC estate, the general rights to review or audit Aurora's records. The department indicated that although it lacks this general authority, through other reviews, such as examinations of Aurora conducted by the department in its role as regulator of the insurance industry, the department has gained confidence in Aurora's compliance with the ELIC agreements and thus has not needed to assert additional rights to monitor Aurora.

COMMENTS

In response to this Audit, the Chairman requested information from the Department of Insurance regarding efforts they will take to meet the recommendations of this Audit, as well as the timeline for taking those actions. The Subcommittee may wish to discuss the results of the audit and have the Department specify the actions they have taken so far.

ITEM 1100 CALIFORNIA SCIENCE CENTER

ISSUE 1: FINANCE LETTER

This Finance Letter requests an increase in expenditure authority of \$365,000 from the Exposition Park Improvement Fund (Special Fund) and increased reimbursement authority of \$158,000. These budget adjustments reflect changes made by the new Los Angeles Coliseum lease signed on Feb. 13, 2008. The new lease increased payments to the State from \$80,000 to \$1 million per year, while taking on some new responsibilities in regards to landscaping and repair costs. The reimbursement authority request is to bill the City and County for their share of the landscaping and repair costs.

Expenditures under this authority will include \$115,000 in security and facility maintenance/upgrades including security camera's, repair of patrol vehicles, and restroom repair.

COMMENTS

The new lease has been implemented and this authority is necessary to meet the obligations of that lease. This proposal does provide new funding to the Center for new responsibilities, but does not offset the reduction previously approved by the Subcommittee.

**ITEM 1110 DEPARTMENT OF CONSUMER AFFAIRS REGULATORY BOARDS
AND ITEM 1111 DEPARTMENT OF CONSUMER AFFAIRS BUREAUS,
PROGRAMS, DIVISIONS**

The Department of Consumer Affairs (DCA) Boards and Bureaus provide exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns.

The Boards are budgeted under organizational code 1110, and the total proposed budget is \$251 million (no General Fund) and 1,362 positions – an increase of \$6 million and 12 positions. The Bureaus are budgeted under organizational code 1111, and the total proposed budget is \$221 million (no General Fund) and 1,417 positions – an increase of \$23 million and 67 positions.

ISSUE 1: FINANCE LETTER

As discussed in the previous hearing on DCA Boards and Bureaus, there are 4 Boards scheduled to sunset June 30th this year. These Boards are the Board of Barbering and Cosmetology, Speech-Language Pathology and Audiology Board, Dental Board of California, and the Board of Vocational Nursing and Psychiatric Technicians.

This request eliminates these items under the DCA Boards, and recreates the exact same budgets as Bureaus directly under DCA.

COMMENTS

There is no net fiscal impact. This is a technical adjustment moving where these Items fall in the budget.

ISSUE 2: BOARD OF BARBERING AND COSMETOLOGY

The Board requests an augmentation of \$662,000 (Special Fund) and 9 positions to conduct statutorily mandated inspections of their licensee population. The Board currently licenses 43,000 establishments, 460,000 individuals, and 269 schools. There are currently 16 inspectors to serve this population. The law requires inspection of establishments within 90 days of licensure. In 2006-07, only 70 percent of the required 6,179 inspections were completed. In 2006-07, there were 43,000 existing establishments with only 3.7 percent random inspections and 4.3 percent targeted inspections performed.

COMMENTS

Revenues and reserves for this fund are up and are able to handle these additional costs. This appears to be an appropriate use of such funds.

ISSUE 3: SPEECH - LANGUAGE PATHOLOGY & AUDIOLOGY BOARD

The Board is requesting to assume responsibility for its cashiering duties in-house rather than continue paying for these services under a shared services agreement with the Medical Board of California.

The Board proposes to use the funding that would have gone to the Medical Board towards temporary staff to cover tasks that existing staff will be directed away from to process cashier receipts.

COMMENTS

DCA internal auditors determined that by running its own cashiering services, the Board could improve efficiency, reduce duplication of efforts, and eliminate control weaknesses.

There is zero net financial impact from this proposal.

ISSUE 4: BUREAU FOR PRIVATE POSTSECONDARY EDUCATION (BPPE)

The Governor's Budget proposes \$7.858 million for 57 positions for the Bureau for Private Postsecondary Education (BPPE). The Budget also includes \$337,000 for the Student Tuition Recovery Fund Program under BPPE.

The BPPE was preceded by the Bureau for Private Postsecondary and Vocational Education. That Bureau became inoperative on July 1, 2007, though legislation provided them interim operating authority for one year. Chapter 365, Statutes of 2007, established the new BPPE within DCA, but restricts the BPPE from commencing operations unless a new statute is enacted that creates a new California Private Postsecondary Education Act. AB 2746 enacts a new California Private Postsecondary Education Act and is currently in the Assembly Higher Education Committee.

COMMENTS

The last year the previous Bureau was funding, 2006-07, it was funded at \$4 million, significantly less than the requested \$7.858 million in the Governor's Proposed Budget. It appears that approximately \$1 million of that is for start-up costs since there has been no operation in place for one year. The remaining \$3 million increase is requested for reform efforts, but this is dependant on the ultimate structure dictated by a policy bill.

The policy bill will likely still be in progress in the Legislature at the time subcommittees are closed for the year. As such, it may make sense for the Subcommittee to take an action to send this to conference committee for further review.

ITEM 8500 BOARD OF CHIROPRACTIC EXAMINERS

The Board of Chiropractic Examiners protects California consumers from fraudulent, negligent, or incompetent practice of chiropractic care. The Board ensures that providers are adequately trained and meet recognized standards of performance for treatment and practice. The Board uses licensing, continuing education, and disciplinary procedures to maintain those standards. It also sets educational standards for recognized chiropractic colleges, reviews complaints, and investigates possible violations of the Chiropractic Act and regulations.

ISSUE 1: AUDIT

In March of 2008 the State Auditor released an audit report on the Board containing over 40 recommendations and a plethora of topics.

The recommendations centered primarily on:

- Compliance with the Bagley-Keene open meeting act,
- Compliance with the administrative procedures act,
- Compliance of employees with the political reform act,
- Complaint review processes including setting timelines
- Prioritizing complaints
- Use of experts
- Application and petition processing
- Use of continuing education

Last year the Board's budget was essentially reduced by half based on concerns that had been raised regarding the operations and actions of the Board. Many of the audit recommendations and findings concern those issues that led to the reduced budget for the current year.

COMMENTS

The Governor's Budget proposes restoring the Board to its full level of funding this year at \$3.18 million (Special Fund). If the Subcommittee wishes to approve this restored funding, it would make sense to require an annual report from the Board showing its progress in addressing the recommendations of the State Auditor.

ISSUE 2: FINANCE LETTER

This Finance Letter requests an augmentation of \$503,000 (Special Fund) and 4 positions to provide an in-house investigation unit in place of contracted investigative services.

Currently, the Board receives notification from the Department of Justice when a licensed chiropractor is arrested and waits to take action until a conviction is handed down. This proposal will allow proactive investigations, which have not occurred before. The standard of proof in an administrative hearing is much less than in criminal court.

The Board would also like to begin conducting random field inspections, also never done before. This proposal would allow them to randomly inspect approximately 10 percent of the licensed population.

There are, on average, approximately 150 licensed chiropractors on probation at any given time. They are currently required to submit quarterly reports, but this proposal will allow an investigator to meet with the chiropractor on site to ensure compliance with parole terms.

COMMENTS

The Board has received a great deal of pressure over the past several years to improve its handling of complaints and other cases. This proposal is in line with their adopted strategic plan to begin addressing those concerns.

In March the State Auditor released an Audit on the Board including over 40 recommendations. Some of the issues raised were in regards to their complaint review process. The Audit recommended:

- Development of procedures to ensure that the board processes and resolves complaints as promptly as possible by establishing benchmarks and more structured policies and procedures specific to each step in its complaint review process.
- Establish time frames for staff to open complaint cases, complete initial review, refer cases to an investigator or expert if necessary, and close or otherwise resolve complaints through implementing informal discipline or referring for formal discipline to ensure that all complaint cases move expeditiously through each phase of the complaint review process.
- Implement tracking methods, such as flagging priority cases during complaint intake, using multiple levels of priority categories, and assigning specific time frames to process those priority categories.

It would make sense for these recommendations to be implemented along with this change to in-house investigation to ensure the board is conducting its complaint review and investigation process as efficiently as possible. The Subcommittee may wish to link these recommendations to the approval of this request.

ITEM 8530 BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO AND SUISUN

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun licenses and regulates maritime pilots who guide vessels entering or leaving those bays. All expenses of the Board (except for pilot training) are funded by a surcharge on pilotage fees set by the Board. Pilot training programs are funded by a separate surcharge on vessel movements.

ISSUE 1: FINANCE LETTER

This Finance Letter requests \$367,000 (Special Fund) and .5 positions to undertake activities including responding to concerns which arose in response to the Cosco Busan Bay Bride collision (incident).

In response to the incident, the Board has determined several areas of potential improvements including a comprehensive review of pilot fitness standards, training in shipboard and portable electronic navigation systems, and strengthening the Board's incident investigation procedures.

Review of navigation technology is likely to result in changes to the current training provided and require new rulemaking and regulations.

Additionally, new Federal rules require the Board to implement a mandatory pilot trainee drug and alcohol-testing program, requiring development of procedures to implement.

This request also includes a new line item to respond to the Legislatures request for the Board to increase diversity outreach efforts. This line item for \$25,000 will fund a contract for recruitment and outreach to qualified minority men and women to compete for entry into the Board's pilot trainee training program.

COMMENTS

This proposal responds to many of the concerns raised in response to the Bay Bridge Collision. The proposed actions will improve the operations of the Board, and update procedures and regulations that have been in place for a considerable amount of time in some cases.

This proposal also begins to respond to the Legislatures concerns with the Diversity of the pilot program.