AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

TUESDAY, APRIL 25, 2006, 1:30 PM
STATE CAPITOL, ROOM 447

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CONSENT ITEMS

Item	*Department*	*Summary*
0510	Secretary of State and Consumer Services	Support budget: $769,000.
0954	Scholarshare Investment Board	Governor's Scholarship Programs and Math and Science Scholars Program: $1,124,000.
1100	California Science Center	California African American Museum: $143,000 (Special Fund) redirection for 2 positions.
1100	California Science Center	Office of Park Management: Exposition Park Department of Public Safety, $76,000 increase (Special Fund) to purchase and install a new communications system.
1100	California Science Center	Office of Park Management: $99,000 increase (Special Fund) to support maintenance equipment for the Science Center and African American Museum parking structure.
1110-1111	Department of Consumer Affairs	Administration and Information Services (Legal Affairs): $49,000 increase in 2006-07 and $47,000 increase in 2007-08 (Special Fund) to fund 0.5 positions for the Bureau of Automotive Repair.
1110-1111	Department of Consumer Affairs	Athletic Commission: $290,000 increase in 2006-07 and $262,000 increase in 2007-08 (Special Fund) to fund 4.5 positions in 2006-07 and 4.0 positions in 2007-08.
1110-1111	Department of Consumer Affairs	Board of Barbering and Cosmetology: $215,000 in 2006-07 and $215,000 in 2007-08 (Special Fund) to fund 4.0 positions to support the licensing program.
1110-1111	Department of Consumer Affairs	Board of Barbering and Cosmetology: $393,000 increase in 2005-06, $580,000 increase in 2006-07 and $580,000 in 2007-08 (Special Fund) to provide exam services to an increased number of candidates for licensure.
1110-1111	Department of Consumer Affairs	Board of Geologists and Geophysicists: $137,000 in 2006-07 and $137,000 in 2007-08 (Special Fund) to restore the Operating Expenses and Equipment budget.
1110-1111	Department of Consumer Affairs	Board of Geologists and Geophysicists: $48,000 in 2006-07 and $46,000 in 2007-08 (Special Fund) to restore funding of 1.0 position to support the Examination and Enforcement Units.
1110-1111	Department of Consumer Affairs	Board of Occupational Therapy: $25,000 in 2006-07 (Special Fund) for one-time moving costs.
1110-1111	Department of Consumer Affairs	Board of Professional Engineers and Land Surveyors: $126,000 redirection and $46,000 increase in 2006-07 and $126,000 redirection and $42,000 increase in 2007-08 (Special Fund) to fund 3.0 enforcement positions.
1110-1111	Department of Consumer Affairs	Board of Professional Engineers and Land Surveyors: $46,000 redirection in 2006-07 and $46,000 redirection in 2007-08 (Special Fund) to fund 1.0 positions.
1110-1111	Department of Consumer Affairs	Bureau for Private Postsecondary and Vocational Education: $243,000 redirection in 2006-07 and $243,000 redirection in 2007-08 (Special Fund) to fund 3.0 positions in the Student Tuition Recovery Fund.

Item	*Department*	*Summary*
1110-1111	Department of Consumer Affairs	Bureau for Private Postsecondary and Vocational Education: $184,000 redirection (Special Fund) in 2005-06, 2006-07 and 2007-08 to fund 2.0 positions in the Title 38 Veterans Education Administration Program.
1110-1111	Department of Consumer Affairs	Bureau for Private Postsecondary and Vocational Education: $173,000 redirection (Special Fund) in 2006-07 and 2007-08 to fund 2.0 positions in the Office of Information Services Division.
1110-1111	Department of Consumer Affairs	Bureau for Private Postsecondary and Vocational Education: $126,000 redirection (Special Fund) in 2006-07 and 2007-08 to fund 2.0 positions in DCA's Complaint Mediation Program under the Consumer and Community Relations Division (CCRD).
1110-1111	Department of Consumer Affairs	Bureau for Private Postsecondary and Vocational Education: -$182,000 baseline reduction (Special Fund) from operating expenditures in 2005-06 and -$194,000 in 2006-07 and -$194,000 in 2007-08.
1110-1111	Department of Consumer Affairs	Bureau of Automotive Repair: $3.7 million in 2006-07 and $3.7 million in 2007-08 (Special Fund) to implement the provisions of AB 383 (Montañez).
1110-1111	Department of Consumer Affairs	Bureau of Home Furnishings & Thermal Insulation: $213,000 increase (Special Fund) in 2006-07and 2007-08 to fund the Consulting and Professional Services line item.
1110-1111	Department of Consumer Affairs	Bureau of Security and Investigative Services: Augmentations of $1.4 million in 2006-07 and $1.1 million in 2007-08 (Special Fund) and 20.0 positions to implement the provisions of SB 194 (Maldonado).
1110-1111	Department of Consumer Affairs	California Architects Board: $27,000 increase (Special Fund) in 2006-07 and 2007-08 to restore 0.5 positions to provide support in the Enforcement Program.
1110-1111	Department of Consumer Affairs	California Board of Accountancy: $43,000 redirection (Special Fund) in 2006-07 and 2007-08 to fund 0.5 positions and 0.3 positions for front office support and web site support.
1110-1111	Department of Consumer Affairs	Consumer and Community Relations Division: $665,000 redirection (Special Fund) in 2006-07 and 2007-08 to fund 6.0 positions in the Policy and Publications Development Office.
1110-1111	Department of Consumer Affairs	Dental Board of California: $76,000 increase (Special Fund) in 2006-07 and $74,000 increase (Special Fund) in 2007-08 to fund 1.0 positions in the Adult Oral Conscious Sedation Program.
1110-1111	Department of Consumer Affairs	Hearing Aids Dispenser Bureau: $65,000 (Special Fund) one-time augmentation to implement the Applicant Tracking System.
1110-1111	Department of Consumer Affairs	Medical Board of California: Augmentations of $181,000 in 2006-07 and $146,000 in 2007-08 (Special Fund) to fund 2.0 positions to support the monitoring and rehabilitation of impaired physicians.
1110-1111	Department of Consumer Affairs	Medical Board of California: $169,000 increase (Special Fund) in 2006-07 and 2007-08 to the Enforcement Program Evidence/Witness line item.
1110-1111	Department of Consumer Affairs	Office of Exam Resources (Licensing/Examinations): position authority of 1.0 positions to address increasing workload.

Item	*Department*	*Summary*
1110-1111	Department of Consumer Affairs	Office of Information Services (iLicensing System): (All Special Fund) $1.2 million redirection in 2005-06, $3.7 million increase and $1.5 million redirection in 2006-07, $3.6 million increase and $1.3 million redirection in 2007-08 and $2.3 million increase and $500,000 redirection in 2008-09 to replace the existing On-Line Professional Licensing System.
1110-1111	Department of Consumer Affairs	Osteopathic Medical Board: $27,000 increase (Special Fund) in 2006-07 and 2007-08 to fund 0.5 positions for staff support.
1110-1111	Department of Consumer Affairs	Osteopathic Medical Board: $1.4 million increase (Special Fund) in 2006-07 and 2007-08 to fund the Board Members' per diem of $100 which will allow members to meet from twice a year to four times a year.
1110-1111	Department of Consumer Affairs	Physical Therapy Board: -$297,000 (Special Fund) reduction of expenditure authority in 2006-07 and 2007-08.
1110-1111	Department of Consumer Affairs	Physician Assistant Committee: $38,000 increase (Special Fund) in 2006-07 and 2007-08 for Investigative Services/Medical Board of California costs.
1110-1111	Department of Consumer Affairs	Speech Language Pathology and Audio: $18,000 increase (Special Fund) in 2006-07 and 2007-08 to fund 0.3 positions.
1110-1111	Department of Consumer Affairs	State Board of Pharmacy: $208,000 increase (Special Fund) in 2006-07 and $189,000 in 2007-08 to restore 2.5 positions.
1110-1111	Department of Consumer Affairs	Structural Pest Control Board: $66,000 increase (Special Fund) in 2006-07 and $64,000 in 2007-08 to fund 1.0 positions.
1110-1111	Department of Consumer Affairs	Structural Pest Control Board: $60,000 increase (Special Fund) in 2006-07 and 2007-08 to the Consulting and Professional Services line item.
1110-1111	Department of Consumer Affairs	Various Boards: $1.6 million increase (Special Fund) in 2006-07 and $187,000 in 2007-08 to support a rent increase and moving costs for boards currently located on Howe Avenue.
1110-1111	Department of Consumer Affairs	Various Boards: $1.2 million decrease (Special Fund) in 2006-07 and ongoing resulting from rent savings with the relocation of its headquarters to new facilities.
1110-1111	Department of Consumer Affairs	Vocational Nursing Program: $168,000 increase (Special Fund) in 2006-07 and 2007-08 to fund 4.0 positions.
1760	Department of General Services	Material Services and Statewide Records Management: $6.8 million increase (Service Revolving Fund) and 54.0 positions in 2005-06 and 2006-07 to reorganize several division within the Department.
1760	Department of General Services	Office of Fleet Administration: - $540,000 one-time loan (Service Revolving Fund) in 2006-07 to cover cash shortages in the Motor Vehicle Parking Fund in 2006-07.
1760	Department of General Services	Office of Fiscal Services: -$7.8 million reduction in 2006-07 ($1.7 million Architect Revolving Fund and $6,087,000 million Service Revolving Fund) to eliminate excess expenditure authority primarily due to Control Section 4.10 position and funding reductions in 2002-03.
1760	Department of General Services	Office of Public School Construction: $74,000 increase in 2005-06 and 2006-07 (Relocatable Classroom Lease Revenue) to fund 1.0 positions to implement and operate the Asset Management Plan for

		the State Relocatable Classroom Program.
1760	Department of General Services	Asset Planning and Enhancement: $1 million increase (Service Revolving Fund) in 2006-07 for the estimated tenant improvement cost required to prepare space in the Elihu Harris building for new tenancy.
1760	Department of General Services	Building and Property Management: $185,000 increase (Service Revolving Fund) in 2006-07 to establish a baseline equipment authority sufficient to cover the equipment required when new buildings are brought on-line.
1760	Department of General Services	Building and Property Management: $1.1 million increase (Service Revolving Fund) in 2006-07 to fund increases in security contracts due to an increase in benefits and a reduction in service from the California Highway Patrol.
1760	Department of General Services	Building and Property Management: $885,000 increase (Service Revolving Fund) and 8.0 positions in 2006-07 for the additional maintenance and operation costs at the Caltrans Headquarters, 5900 Folsom Boulevard, 34th and Stockton Boulevard, 1900 Royal Oaks Drive and the Dot Tot Day Care facilities in Sacramento.
1760	Department of General Services	Building and Property Management: $1 million increase (Service Revolving Fund) in 2006-07 to the special repairs line item to fund special repairs and deferred maintenance projects as requested by the Public Utilities Commission.
1760	Department of General Services	Building and Property Management: $128,000 increase (Service Revolving Fund) in 2006-07 to cover funding costs for water quality monitoring and permit fees relating to the operation of the Central Plant Building at 625 Q Street.
1760	Department of General Services	Building and Property Management: $2.5 million increase (Service Revolving Fund) in 2006-07 to the special repairs line item to complete annual special repairs and deferred maintenance projects for the Building Rental Account (BRA) buildings.
1760	Department of General Services	Building and Property Management: -$271,000 reduction of service (Service Revolving Fund) and -4.0 positions in 2006-07 requested by the Department of Parks and Recreation for the Leland Stanford Mansion.
1760	Department of General Services	Professional Services Branch: $169,000 increase (Service Revolving Fund) and in 2006-07 to convert 2.0 limited-term positions into permanent full time positions.
1760	Department of General Services	9-1-1 Emergency Communications Office: $815,000 increase (Service Revolving Fund) and 4.0 positions in 2006-07 to maintain program requirements and to meet new program needs.
1760	Department of General Services	9-1-1 Emergency Communications Office: $31.9 million increase in 2006-07, $2.4 million increase in 2007-08 and $306,000 increase and ongoing beginning in 2008-09 (State Emergency Telecommunications Account) for Local Assistance appropriations to provide enhanced wireless services.
8500	Board of Chiropractic Examiners	Support budget of $2.9 million (State Board of Chiropractic Examiners Fund)
8530	Board of Pilot Commissioners	Support budget of $1.5 million (Board of Pilot Commissioners' Special Fund).

ITEM 1900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefits for more than 1.4 million active employees and retirees of state and local agencies in California. Benefits include retirement, disability, and survivor's retirement benefits, Social Security for State employees, and the development, negotiation, and administration of contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long term care program for members and eligible individuals.

CalPERS is governed by a Board of Administration. The California Constitution provides that the Board of Administration has authority over the administration of the retirement system. Therefore, the budget data presented here is for informational purposes only, with the exception of the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

The Governor's budget allocates $1.3 billion from the General Fund and Special Fund contributions totaling $745,000. The Governor's budget proposes total expenditures of $12.3 billion with funding coming primarily from the Public Employees' Retirement Fund and the Public Employees' Health Care Fund.

ISSUE 1 FINANCE LETTER – MEDICARE PART D POSITIONS

In a finance letter dated March 30th 2006, CalPERS has requested permanent funding of $439,000 for 5.5 permanent full time positions and one time funding of $50,000 for the purpose of implementing the processing of Medicare Part D eligibility files, reconciliation files, and subsidy requests.

CalPERS is also waiting for an opinion for the Office of the Attorney General regarding the distribution of the subsidy (what fund any residuals of the special deposit fund go to), but these positions and their duties are separate from that finding. Regardless of the Attorney General's opinion, CalPERS is required to process the Medicare Part D eligibility files, reconciliation files, and subsidy requests.

COMMENTS

CalPERS estimates they will process subsidy requests for nearly 96,000 Medicare Part D eligible members and will generate approximately $54 million in subsidies for the benefit of state and contracting agencies. The requested positions are for facilitating this process.

ISSUE 2: FINANCE LETTER – ASSISTING CONTRACTING AGENCIES TO COMPLY WITH GASB 45

CalPERS is requesting one-time expenditure authority of $2.935 million to assist contracting agencies to comply with GASB 45 financial reporting requirements.

Under this request, CalPERS would assist contracting agencies in meeting their short-term needs by providing the health data necessary to complete the health actuarial valuation necessary to calculate their health benefit liability. CalPERS will also be able to execute a cost study to determine the functional and business requirements necessary to implement a full service model where CalPERS could provide all necessary services to the contracting agencies.

CalPERS augmentation would allow them to bring on 12 business analyst consultants to prepare a detailed cost analysis to determine the functional and business requirements to implement a full service model (including in-house actuarial valuations. This cost study will include:

- Cost analysis for in-house valuations.
- Cost analysis for pre-funding contribution investment options.
- Development of a system interaction model.
- Development of a business interaction model.
- Documentation of all business and technical requirements.

CalPERS points out their successful administration of the pre-funded retirement system as a demonstration that pre-funding is a sensible business approach to reduce future liabilities. Additionally, they point out their impressive growth in net asset value to over $200 billion as proof of their successful diversified investment strategy and its responsiveness to market developments, making CalPERS a qualified entity to provide such services.

COMMENTS

This could help provide a standard for local agencies and school districts on how to handle GASB 45 compliance issues. Many of those agencies currently utilize CalPERS for existing services, and CalPERS expects many of them to similarly look to CalPERS to provide these new services that will be required under GASB 45 requirements.

This bill has no General Fund effect. If CalPERS is able to provide this full service model, it may save local agencies and school districts money by providing them with an effective investment strategy.

ITEM 8770 ELECTRICITY OVERSIGHT BOARD

The Electricity Oversight Board (EOB) works to ensure reliable electricity transmission and reasonable wholesale electricity market prices. In order to achieve these ends, the EOB:

- Monitors and investigates the function, competitiveness and structure of markets for bulk energy, transmission, and ancillary services that serve California consumers, and participates on behalf of California in western interstate regional market monitoring structures.

- Conducts oversight and monitoring of the California Independent System Operator (CAISO) and the wholesale markets and grid services CAISO administers.

- Initiates regulatory actions and interventions when necessary to protect California consumers at federal and regional proceedings regarding wholesale energy markets and electricity transmission, including actions before the Federal Energy Regulatory Commission. These actions include cases to obtain refunds for market overcharges, change rules to prevent future market abuses, alter market structures to better serve California public interests, improve reliability rules, and set rates for use of the transmission grid.

The table below shows proposed funding for the board, which remains essentially flat in 2006-07. (Spending in 2004-05 was reduced because of one-time savings.)

Electricity Oversight Board
Spending by Fund
(thousands)

Fund	Actual 2004-05	Estimated 2005-06	Proposed 2006-07
Public Utilities Commission Utilities Reimbursement Account	$2,388	$3,347	$3,385
Energy Resources Programs Account	373	513	518
Total Expenditures (All Funds)	**$2,761**	**$3,860**	**$3,903**

Proposed staffing for the board remains flat at 21.9 personnel-years.

ITEM 9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

This program, administered by the California Public Employees Retirement System (CalPERS), funds health and dental benefits for retired state employees and their dependents. The program began in 1962, with an employer contribution of $5.00 per month toward the cost of a basic health plan. Since then, major medical plans, Medicare, and plans supplementing Medicare have been developed. Dental care was added in 1982. The 2005-06 employer contribution for health premiums maintains the average 100/90 percent contribution formula established in Government Code Section 22871. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward the retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The 2005-06 monthly contribution maximums are $394 for a single enrollee, $738 for an enrollee and one dependent, and $933 for an enrollee and two or more dependents. Dental care premiums vary by plan and number of dependents. Retirees who are enrolled in Medicare, and whose health plan premium is less than the maximum state contribution may apply the difference towards their Medicare Part B premium.

Retiree Costs Compared with Active Employee Costs. Average state costs for retirees and active employees are similar. However, total average premium costs per active employee are greater, with the employee picking up the difference. A significant portion of retiree health care costs is paid by Medicare, which covers more than 60 percent of retirees.

Health and Dental Benefits for Annuitants
Budgeted Expenditures
(in thousands)

Program	Actual 2004-05	Estimated 2005-06	Proposed 2006-07
Health and Dental Benefits for Annuitants	$800,676	$895,197	$1,019,368
Total Expenditures (All Programs)	**$800,676**	**$895,197**	**$1,019,368**

Budget Estimates 13.8-percent Cost Increase. The budget estimates that spending for Health and Dental Benefits for Annuitants will total $1 billion in 2006-07—an increase of 13.8 percent from the current-year amount. This estimate will be further refined in June after CalPERS establishes health plan premiums for 2007. Although all of this cost is budgeted from the General Fund, 35 percent of this cost is for retirees from programs funded by special funds or federal funds and the General Fund for these costs (two years in arrears) through the Statewide Cost Allocation Plan--pro-rata assessments on special funds and federal funds for statewide costs.

INFORMATIONAL ITEMS ONLY

ITEM 1110-1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

ISSUE 1: BUREAU OF SECURITY AND INVESTIGATIVE SERVICES (BSIS): ENFORCEMENT OF TRAINING REQUIREMENTS

The Bureau of Security and Investigative Services (BSIS) has jurisdiction over the following business entities and their employees: private patrol operators, private investigators, alarm companies, repossession agencies, locksmiths and training facilities that offer courses to private investigators, private patrol operators, guards, alarm company operators and their employees.

BACKGROUND:

Compliance With AB 2880 (Chavez, Chapter 886, Statutes of 2002). This bill requires that registered security guards complete a total of, depending on their classification, 32-40 hours of training within 30 days of the day their registration card is issued by the bureau. In prior subcommittee hearings, concern has been raised that the Bureau is not devoting adequate resources to ensure that security companies and their security officers are meeting the new standards set forth in statute. The Bureau has responded that it has been able to accommodate the increased workload using additional staff and savings accrued through an increase in online registration processes.

Bureau's Response. The Bureau, in partnership with industry experts, developed a Skills Training Course for Security Guards (California Code of Regulations Article 9, Section 643) to provide the outline of mandated and elective training courses in compliance with AB 2880. The Bureau provides each business with an official approval letter for use of the particular training method they have chosen. A copy of the approval letter and the approved training course program adopted by the licensee is maintained in the Bureau’s files. In July of 2004, a mass mailing was sent to all licensed Private Patrol Operators providing instructions on how to comply with the new training requirements. An additional mass mailing was sent out 12 months later to remind those businesses that had not yet submitted information on how their guard staff would meet the training requirements. Currently, through the Bureau’s Outreach Program, and investigation site visits, the Bureau visits an average of 20 Private Patrol Operator businesses monthly. As a part of the visit, staff establishes compliance with existing business laws, including the requirements of the Skills Training Course for Security Guards. Further, as a part of each investigation into complaints concerning Private Patrol Businesses, the Bureau verifies that the business has training program information on file with the Bureau, that the program has been approved and that the training program has been implemented as approved.

COMMENTS:

The intent of this informational item is to update members on the status of this issue.

BSIS staff provided the following information regarding their enforcement division:

- The Bureau's current enforcement staff consists of one manager, eight enforcement analysts, and two clerical support staff.

- The Bureau regularly assesses their enforcement needs and is considering the following measures to ensure continued effectiveness:

  1. The Bureau is currently reviewing existing processes and looking for every opportunity to maximize resources and realize efficiencies.

  2. The Bureau is seeking to improve enforcement effectiveness by focusing our efforts on preventive measures. As such, the Bureau has increased its Outreach Program to ensure that all new company licensees are knowledgeable of the law; have access to appropriate information; meet with Bureau representatives; and receive answers to all questions concerning legal operations.

  3. The Bureau is considering ways to expand our presence in the Los Angeles region. We plan to accomplish this goal as efficiently as possible by hiring seasonal investigators such as retired annuitants. This allows the Bureau to expedite local enforcement by being in the Los Angeles area. More expedient site visits would reduce waiting times for mailed documents and improve timeliness on documentation of current business operations.

  4. The Bureau is seeking to focus resources toward increasing our utilization of the Department of Consumer Affairs' Division of Investigation (Division). The Bureau currently employs the Division's services for cases that require the expertise and/or status of a sworn peace officer.

Implementation of SB 194 (Maldonado, Chapter 655, Statutes of 2005). SB 194 enacts the Proprietary Security Services Act, affecting unarmed private security officers who are employed exclusively by any one employer and whose primary duty is to provide security services for his/her employer. A person who meets the definition of a proprietary private security officer will be required to register with the Bureau, comply with a background check, and pay an application and renewal fee.

Subcommittee members will be voting for this 2006-07 Budget Change Proposal (BCP), which has been included in the consent calendar of this agenda.

BSIS has informed Budget staff that, before they can consider adding any additional positions to their enforcement division, they need to assess the impact of the measures they are currently implementing to improve their enforcement responsibilities as well as the impact on staffing needs of the 20.0 positions included in SB 194, which have been recommended for approval.

ITEMS TO BE HEARD

ITEM 0855 CALIFORNIA GAMBLING CONTROL COMMISSION

The California Gambling Control Commission, under the Gambling Control Act, has the jurisdiction over the operation, concentration, and supervision of gambling establishments, and over all persons or things having to do with the operations of gambling establishments in the State of California. There are approximately 100 cardrooms and 55 tribal casinos in current operation.

ISSUE 1: FIELD INSPECTION PROGRAM

Business and Professions Code Section 19811 provides the Commission with the responsibility of oversight for all gambling establishments in the State. The California gambling establishment industry currently consists of 94 gambling establishments, which operate more than 1,300 gambling tables. Likewise, the tribal casino industry has grown to 54 tribes operating 55 tribal casinos.

In his signing message for AB 1750 (2005), the Governor stated his concern about California's lack of gambling regulation. In response, the Commission has submitted a proposal to establish a Field Inspection Program as well as an augmentation to their Licensing and Auditing workload. Specifically, they seek $1.7 million ($359,000 General Fund) to establish 14.5 positions.

The Field Inspection Program, consisting of 3.0 positions, would be established to meet the Commission's new responsibility to establish and maintain a program for random field inspection of gaming devices on a quarterly basis. Likewise, the Commission seeks the remaining 11.5 positions to provide for Licensing and Auditing workload deficiencies.

COMMENTS

The budget change proposals for the Field Inspection Program and the Technical Services Program (Issue 3) represent a dramatic shift in fiscal policy concerning the regulation of gaming in California. To date, support for gaming regulation has been derived from the utilization of various special funds supported by gaming interest.

In terms of gaming at Indian Casinos, the regulatory and licensing activities of the state have been historically funded by the Special Distribution Fund (SDF). Money deposited in the SDF is distributed based on the fund's five priorities: 1) address shortfalls in the Revenue Sharing Trust Fund so that eligible tribes receive $1.1 million annually, 2) fund programs addressing gambling addiction and related problems, 3) fund regulatory activities of the commission and DOJ, 4) provide grants for local government agencies affected by tribal casinos, and (5) achieve any other gambling related purposes.

Prior to the new and revised compacts of 2004, all gaming tribes contributed to the SDF, thereby providing resources for the regulation of casino style gaming. However, the 2004 compacts departed for the existing formula, directing five tribes to make payments to the

General Fund based on the "net win" of their slot machines. The remaining 1999 compact tribes believe that the redirection of fund warrant a General Fund contribution to the regulation of gaming.

The LAO notes that Commission currently receives all operational funding from the SDF and the Gambling Control Fund (for cardroom regulation) and nothing in state law prohibits the continuation of this practice. Likewise, they further point out that the SDF is projected to have a fund balance of $113 million at the end of 2006-07. Therefore, in light of ongoing budgetary shortfall, the LAO recommends rejecting the Administration's proposal to shift a portion of the regulatory burden for the SDF to the General Fund.

The LAO also recommends rejecting the proposed audit staff expansion. The Commission reports that it has completed only about six full audits or tribes since its inception. Expanded workloads and turnover, in addition to cited disputes with tribal operators, seem to be responsible for the poor record to date. The LAO believes that the Commission should first improve it productivity of existing staff before any expansion is granted. It will soon lose the authority to audit fiscal 2002-03, 2003-04, and 2004-05. Within this proposal, the Commission anticipated conducting an abbreviated audit for those years, in an effort to provide some oversight.

LAO recommends granting the Inspection Field Unit on a two-year limited term basis, which consists within the Technical Services Unit. By providing a limited term, the Legislature can evaluate the effectiveness of the program.

ISSUE 2: TECHNICAL SERVICES, RESEARCH & TESTING UNIT

The phenomenal growth in both the volume of gaming activity and gaming revenue generated from the public within the State of California warrants the need to provide oversight and public protection from inappropriate and unauthorized gaming within the state. Presently, the Commission and the State do not have any technical staffing resources dedicated to gaming oversight in the areas of electronic gaming device and associated equipment research, testing, inspection, or approval.

All new and amended Tribal Gaming Compacts provide the authority for the Commission to inspect, test, approve, and certify game software, any changes thereto, and testing of hardware and associated equipment. The Technical Services Program will act as an available resource to the Field Inspection Program to ensure the integrity and fairness of gaming devices offered for play to the patrons of in-state casinos and to assist the DOJ Division of Gambling Enforcement with their investigative efforts.

Accordingly, the Commission requests $732,000 ($366,000 General Fund) to establish 5.0 positions on a two-year limited-term basis to develop a Technical Services Program and a Research, and Testing Unit.

COMMENTS

The budget change proposals for the Technical Services Program and the Field Inspection Program (Issue 1) represent a dramatic shift in fiscal policy concerning the regulation of gaming in California. To date, support for gaming regulation has been derived from the utilization of various special funds supported by gaming interest.

In terms of gaming at Indian Casino, the regulatory and licensing activities of the state have been historically funded by the Special Distribution Fund (SDF). Money deposited in the SDF is distributed based on the fund's five priorities: 1) address shortfalls in the Revenue Sharing Trust Fund so that eligible tribes receive $1.1 million annually, 2) fund programs addressing gambling addiction and related problems, 3) fund regulatory activities of the commission and DOJ, 4) provide grants for local government agencies affected by tribal casinos, and (5) achieve any other gambling related purposes.

Prior to the new and revised compacts of 2004, all gaming tribes contributed to the SDF, thereby providing resources for the regulation of casino style gaming. However, the 2004 compacts departed for the existing formula, directing five tribes to make payments to the General Fund based on the "net win" of their slot machines. The remaining 1999 compact tribes believe that the redirection of fund warrant a General Fund contribution to the regulation of gaming.

The LAO notes that Commission currently receives all operational funding from the SDF and the Gambling Control Fund (for cardroom regulation) and nothing in state law prohibits the continuation of this practice. Likewise, they further point out that the SDF is projected to have a fund balance of $113 million at the end of 2006-07. Therefore, in light of ongoing budgetary shortfall, the LAO recommends rejecting the Administration's proposal to shift a portion of the regulatory burden for the SDF to the General Fund.

ITEM 0690 OFFICE OF EMERGENCY SERVICES

The principal objective of the Office of Emergency Services is the coordination of emergency activities to save lives and reduce property losses during disasters and to expedite recovery from the effects of disasters. Additionally, the Office of Homeland Security is responsible for the development and coordination of a comprehensive state strategy related to terrorism that includes prevention, preparedness response, and recovery.

ISSUE 1: STATE WARNING CENTER STAFF

The State Warning Center (SWC) is the centralized point of information coordination for any statewide emergency. Located in Mather, the center provides 24-hour notification to local emergency response personnel in anticipation of an imminent threat. In addition, SWC's workload also includes consistent verification of statewide contacts and various simulated exercises.

OES asserts that current staff levels within SWC are insufficient to provide continuous coverage. According to OES, adequate coverage of the center requires at least two Emergency Notification Controllers and One Emergency Services Coordinator (or Senior Communications Coordinator) per shift. Although, they have schedule a staffing pattern to meet this requirement, their staffing levels does not provide any support for staff absences due to sickness or family crisis.

The Administration requests an increase of 8.8 positions and $617,000 General Fund to support workload increase and increased flexibility to ensure adequate round-the-clock coverage of the SWC.

ISSUE 2: TECHNICAL ADJUSTMENT – REIMBURSEMENTS

OES requests a technical adjustment to properly align the office's budget reimbursements with the actual level of funds expected to be received in 2006-07. Specifically, this adjustment reduces OES's criminal justice program reimbursement by $1 million to remove authority for the discontinued Gang Violence Suppression Program.

When the Office of Criminal Justice Planning (OCJP) was abolished in 2003-04, its public safety functions were transferred to OES and its juvenile justice programs went to the Board of Corrections, along with the funding from the federal Juvenile Justice Prevention Act (JJPA). Under OCJP, the Gang Violence Suppression Program was one of the juvenile justice programs funded from the federal JJPA.

The Board of Correction committed to funding the Gang Violence Suppression Program for one year through reimbursements to OES. The Board filled that commitment in fiscal year 2003-04, but subsequently discontinued to fund the program.

ISSUE 3: TECHNICAL ADJUSTMENT – JUSTICE ASSISTANCE BLOCK GRANT

The United States Congress has replaced the Edward Byrne Memorial Block Grant and the Local Law Enforcement Block Grant (LLEBG) with the Justice Assistance Block Grant. OES proposes to make technical adjustments necessary to properly budget available federal funds, a budget year reduction of $16.9 million.

The new JAG program allows for the same activities as the Byrne and LLEBG programs, which will result in current year net loss of $14 million in federal funds. This resulted in a 24% reduction to all projects funded under the Anti-Drug Abuse Program and the Marijuana Suppression Program.

ISSUE 4: SAFE TEAMS

In 2002, the Legislature enacted AB 1858 to encourage the formation of regional law enforcement task forces consisting of officers and agents from several law enforcement agencies organized for the explicit purpose of reducing violent sexual assaults through proactive surveillance and the arrest of habitual sexual offenders.

The Administration's proposal seeks to compliment existing law by providing state funding for the establishment and operation of SAFE teams. Under their proposal, OES would issue a sliding scale of grants on a county wide basis to provide a level of funding based on the percentage of registrants in that county. The largest grant possible under this proposal is almost $1.4 million and the smallest is $19,658.

To date, five counties have established SAFE teams, with no available state funding. The Administration seeks to increase the number of counties with teams to 38 (the number of counties with more than 200 registrants). Specifically, they request $6,000,000 (General Fund) and 3.0 additional positions.

COMMENTS

As previous noted, five counties have already established SAFE teams under existing law with no direct assistance from the state. Of the five, four are currently utilizing the Department of Justice to provide taskforce leadership. DOJ's participation in county SAFE team costs an average of $540,515 per team.

Currently, DOJ is funding their participation with the counties out of existing resources. However, it is reasonable to suspect that with the expansion of team throughout the state, DOJ might request additional resources to support their activities.

Based on information provided by DOJ and OES, additional cost outside this proposal could range from $10 million to $21.6 million. The $10 million represents DOJ participation in counties with a grant level of more than $70,000 (a grant of this size should cover a counties operating cost – 19 counties). To provide DOJ assistance to counties with more than 1% of registrants would cost approximately $13 million, and to fund DOJ participant throughout the projected 40 counties is $21.6 million.

Additionally, the committee may wish consider the direction of a state funded SAFE team program. Currently, the proposal allows for the broad usage of funds consistent with existing law. However, it maybe prudential to ensure public resources be utilize in a fashion that provides the most public impact. In this case, a major public concern is the high number of sex offenders that are non-compliant with Penal Code 290. Therefore, the committee may wish to consider narrowing the usage of funding to provide a legislative direction at the state's most critical need.

ISSUE 5: VICTIMS OF CRIMES COMMITTED BY PAROLEES

OES currently administers the legislatively mandated Victim-Witness Assistance Program. The program providing funds to every county to operate comprehensive Victim-Witness Assistance Centers dedicated to providing, among other things, accompaniment services during criminal proceedings for victims of all types of crimes. However, no such program exists to support victims and witness during a parole revocation hearing.

Parole revocation hearings occur when a parolee is suspected to have violated a condition of their parole. The evidentiary hearing portion of the process is conducted by the Board of Parole Hearings in custodial settings and includes the testimony of lay witness.

OES asserts that victim-witnesses are summoned to attend the hearing without preparation or advocacy for their rights and personal safety. Accordingly, OES seeks to expand the service of the Victim-Witness Centers to provide services to victim-witness during parole revocation hearings. Specifically, they request one position and $1.1 million for the Victim-Witness Assistance Fund.

COMMENTS

During the reorganization process, the Department of Corrections and Rehabilitation (CDCR) has created an Office Victim and Survivor Services. The primary purpose of the Office is to proactively enforce and promote the rights of victims and survivors throughout the state’s youth and adult correctional system.

Considering CDCR's newfound dedication to ensuring victims rights are enforced and that victims and survivors have a meaningful voice within the state correctional system: 1) it maybe premature to assess that there is a greater need for victim assistance in conjunction with a parole hearing and 2) CDCR may be the more appropriate place to address this issue, to ensure that California is not funding duplicative services.

ISSUE 6: FISCAL ACTION PLAN UPDATE (INFORMATIONAL ONLY)

The Governor's Office of Emergency Services (OES) has experienced significant problems in its Accounting, Budget, and Grant Management areas. OES has been confronted with severe staffing challenges, increased program and project delivery demands, and repeated disaster activity has compounded their situation. Two major expansions to the responsibility of OES were the merge of the Office of Criminal Justice Planning and the addition of homeland security grants.

The Office of Criminal Justice Planning (OCJP) was merged into OES effective January 1, 2004, without 50 of its former administrative positions. The merger of OJCP increased the OES annual grant portfolio by over 80 additional grant programs and thousands of fiscal transactions. This created a number of issues in regards to grant management and payment processing, which impacted our fiscal management.

In addition, OES had taken on significant new workload created by the homeland security grants and the processing of their federal payments. Further, the State's natural disasters and Hurricane Katrina workload, coupled with the difficulties in recruitment and succession planning in our Budget, Accounting, and Grant Management Sections, generated significant strain on OES and entities they serve.

ITEM 0690 OFFICE OF HOMELAND SECURITY

ISSUE 1: SCIENCE AND TECHNOLOGY UNIT

The OHS seeks to establish the Science and Technology Unit to mirror federal Science and Technology Directorate, in order to coordinate and acting a focal point for the varied homeland security technology solutions.

The cost associated with establishing the unit will be funding through the state's share of the federal homeland security grant and other special funds intended for homeland security purposes. The proposal will fund five positions ($465,000 Federal Trust Fund), which will counter statewide threats by implementing best practices, investigating new, evolutionary improvements to current capabilities and sharing evolutionary new capabilities that are already in use of in the private sector, other states, local agencies and the federal government.

COMMENTS

Although no one questions the role of technology in the effort to ensure public safety against the threat of terrorism, it is unclear of how this unit differs from the existing federal program and what added benefit it provides to the state.

ISSUE 2: MASS TRANSPORTATION SECURITY GRANT PROGRAM

Chapter 38, Statutes of 2002 created the Antiterrorism fund, which provides for state and local antiterrorism activities, and the California Memorial Scholarship Fund (which provides scholarships for the surviving dependents of California residents killed in the terrorist attacks of September 11, 2001). The sole revenue source for the fund is the sale and renewal of memorial license plates by the DMV.

Statute requires that 85% of the Antiterrorism fund be split evenly between the Office of Criminal Justice Planning (now OES) solely for antiterrorism activities and be made available to other agencies for the purpose of funding antiterrorism activities. To date, there has yet to be any expenditure from this fund.

The administration now proposed to change current statute and utilizes the entire antiterrorism portion to establish the California Mass Transportation Security Program, which will provide grants to local rail transit and bus operators for regional preparedness. In 2006-07, the administration anticipates distributing $5 million in grants (the entire fund) to thirteen agencies statewide, with an additional $1 million grants available each year.

COMMENTS

Committee staff has identified a number of concerns with this proposal. However, the two dominating concerns is a possible breach of public trust and the lack-luster impact these resources will have on California's mass transit systems.

The resources for the antiterrorism fund are based on a public perception that a license plate purchase will assist both the state and local governments in their fight against terror. Currently, motorist purchase about $1 million worth of memorial license plates to assist statewide effort. Almost four-years removed from the creation of the program, the state has yet to develop a comprehensive method of utilizing these dollars to maximize their impact.

The administration proposal will change public policy and forgo the local agency access to these resources without going through the normal legislative process. In addition, the funding will overlap with existing, much larger, federal grant programs for transit agencies.

ISSUE 3: ADMINISTRATIVE WORKLOAD INCREASE

Prior to fiscal year 2005-06, administrative support for OHS was provided solely by the OES. As OHS's role and mission has expanded, OES has been unable to keep pace with the OHS's administrative needs. The 2005 Budget Act provided Federal Trust Fund resources to provide contracted services to address OHS administrative support in the following areas: 1) fiscal services, 2) information technology, and 3) legal counsel. It also authorized 1.0 managerial positions to oversee the coordination of these contracted services and to provide limited internal administrative support.

OHS now believes that it is more appropriate to conduct these contracted administrative services in-house due to the increase complexity. They are requesting 9.0 positions ($444,000 from special funds) to increase the administrative and management support.

COMMENTS

The administration's proposal to increase OHS administrative support takes into account that a policy direction the Legislature has not been approved. Currently, OHS rests within the jurisdiction of OES. Therefore, as noted above, OES handles a portion of their administrative needs. Therefore, while most would conclude that OHS administrative support does need an increase, it is currently unclear the number of positions actually needed to support OHS, since this proposal assumes separation from OES.

ITEMS 0860 AND 1730 STATE BOARD OF EQUALIZATION AND FRANCHISE TAX BOARD

ISSUE 1: AUDITOR RECRUITMENT AND RETENTION

At earlier hearings, the subcommittee discussed the high vacancy rates for auditors at the tax agencies, recruitment and retention problems that result in the high vacancy rates and the revenue loss to the state resulting from unfilled auditor positions. The subcommittee directed the State Board of Equalization (BOE) and the Franchise Tax Board (FTB) to report back with the following information:

- Plan for increasing salaries to be competitive.
- Plan and strategies for recruitment and retention (in addition to salaries).
- Revenue loss due to excess vacancies.
- Progress in meeting with and working with the relevant bargaining units toward resolving the vacancy problem.

ITEM 1110-1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by serving as a guardian and advocate for their health, safety, privacy, and economic well-being and by promoting legal and ethical standards of professional conduct. The Department helps to promote good business practices and to ensure that California's consumers receive quality services by establishing minimal competency standards for more than 230 professions involving approximately 2.3 million professionals. The Department is also an important advocate on consumer and business issues.

ISSUE 1: MEDICAL BOARD OF CALIFORNIA: FUNDING FOR THE IMPLEMENTATION OF SB 231 (CHAPTER 674, STATUTES OF 2005)

The Governor's budget proposes $3.9 million in FY 2006-07, $3.5 million in FY 2007-08 and $91,000 in ongoing special fund appropriations for the Medical Board of California (Board) to implement SB 231 (Figueroa), which increases physicians' initial licensure fees and biennial renewal fees from a current ceiling of $610 to $790. The bill also extends the sunset date for the Board to 2011 and makes several changes to implement the recommendations from an Enforcement Monitor, who was authorized by the Legislature, to study the Board's enforcement and diversion programs.

BACKGROUND:

Enforcing the laws governing physician misconduct thus ensuring safe medical practices is one of the Board's most critical functions. However, the 2002 Board's sunset review revealed numerous and significant problems in its enforcement and public disclosure practices. That same year, the Legislature enacted SB 1950, Chapter 1085, Statutes of 2002, requiring the DCA to hire an independent Enforcement Monitor to monitor and evaluate the Boards' disciplinary system and procedures and to reform its enforcement program and operations as well as improve the efficiency of the overall disciplinary system. SB 1950 also required the Board to undergo another sunset review in 2005.

In November 2004, the Enforcement Monitor issued its "Initial Report: Medical Board of California Enforcement Program Monitor", which provided a number of recommendations.
The most significant recommendations from the report included in SB 231 are the following:

- Extension of the Board's sunset date from January 1, 2007 to January 1, 2011.
- An increase in physician license and renewal fees.
- Establish a vertical prosecution model for investigations.
- Eliminate the Board's ability to recover its costs of investigations directly from licensed physicians who are the subjects of investigation.

Proposed Funding. According to the Board, the requirements of SB 231 will generate fiscal impact associated with new and ongoing workload as follows:

- Requires the Board to contract with an independent entity to conduct a study of the Board's peer review process and report to the Legislature no later than July 31, 2007. The estimated one-time cost of $400,000 in FY 2006-07 is based upon information obtained three years ago.

- Requires the Little Hoover Commission to study and make recommendations on the role of public disclosure in the public protection mandate of the Board. This study would begin upon availability of funds which would consist of a one-time cost of $150,000 in FY 2006-07 and would be completed no later than July 1, 2008.

- Changes the Board's license and biennial renewal fees from $600 to $790. Since the Board would implement this change effective July 1, 2006, it would need $8,000 one-time funding in FY 2006-07 for DCA's Office of Information Services (OIS) to perform 80 hours of programming at a cost of $100 per hour.

- Authorizes the Board to cite and fine a physician for not providing requested documents within 15 business days of receipt of the request and any additional authority to fine a physician. This would generate additional Attorney General (AG) workload of 382.5 hours annually. The Board estimates an annual cost of $60,435 in FY 2006-07 and ongoing. In addition, the Board would need $31,000 in FY 2006-07 and ongoing to fund 0.5 Staff Services Analyst positions to address the increased workload.

- Requires the Senior Assistant Attorney General of the Health Quality Enforcement Section to assign attorneys to work on location at the intake unit of the Board to assist in evaluating and screening complaints and to assist in developing uniform standards and procedures for processing complaints. The AG's office estimates a need for two attorney positions to meet this mandate. The Board would need $546,000 in FY 2006-07 and 2007-08 to pay for these services.

- Implements a vertical prosecution model where the investigator must work more closely with AG staff. The Board would need $751,000 in FY 2006-07 and $963,000 in FY 2007-08 to fund ten two-year limited term positions as well as equipment to integrate the Board and AG's computer systems. These amounts would also restore funding of $218,510 for medical consultants to a total of 16,500 annual hours. The Board is currently budgeted at 12,787 annual hours. In addition, the Board estimates a need of $1,912,274 in FY 2006-07 and FY 2007-08 to fund the services for another seven attorney positions at the AG's office to establish the vertical prosecution model.

The tables below summarize the revenues, expenditures and projected cost savings to implement SB 231:

REVENUES	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**Ongoing**
License Fee	$ 172, 900	345,800	345,800	345,800	345,800
License Fee (Postgrad)	156,750	313,500	313,500	313,500	313,500
Renewal	3,293,270	9,785,000	9,785,000	9,785,000	9,785,000

Additional Renewals (500)		95,000	190,000	285,000	380,000
Total Revenues	**3,622,920**	**10,539,300**	**10,634,300**	**10,729,300**	**10,824,300**

EXPENDITURES	2005/06	2006/07	2007/08	2008/09	Ongoing
Peer Review		$ 400,000			
Little Hoover		150,000			
Cite/Fine (AG)		60, 435	60, 435	60,435	60,435
Cite/Fine (MBC-SSA)		31,000	31,000	31,000	31,000
On-site AG		546,364	546, 364		
Vertical Prosecution (AG)		1,912,274	1,912,274		
Vertical Prosecution (MBC)		751,000	963,000		
OIS		8,000			
Total Costs		**3,859,073**	**3,513,073**	**91,435**	**91,435**

COST SAVINGS	2005/06	2006/07	2007/08	2008/09	Ongoing
Diversion Program*				(1,100,000)	(1,100,000)

* Cost savings passed on to licensees in reduced license and renewal fees.

COMMENTS:

The Board claims that they cannot afford to fund SB 231 within existing resources without hampering other critical areas. In addition, the Board believes that SB 231 provides sufficient revenues to fund all the identified costs and keep Board's Contingent Fund solvent with an appropriate reserve, as the Board will implement the fee increase for both initial license and biennial renewals from 4600 to $790 effective January 1, 2006.

Budget staff recommends that members of the subcommittee follow-up on this request next year to get an update on the funding and implementation of this legislation.

Budget staff is also recommending to hold this item open since Senate and Assembly staff are currently seeking clarification on a couple of implementation issues at this time.

ITEM 1760 DEPARTMENT OF GENERAL SERVICE (DGS)

The objectives of the Department of General Services (DGS) are to: (a) Meet the varied responsibilities for management review, control and support of state agencies as assigned by the Governor and specified in statute; (b) Provide support services to operating departments with greater efficiency and economy than they can individually provide for themselves; and (c) Increase effectiveness and economy in the administration of state government by establishing and improving statewide policies and guidelines.

ISSUE 1: PHARMACEUTICAL PROCUREMENT

Last year, subcommittee members adopted the following budget bill language:

The Subcommittee directed DGS and CDC to Compare Potential Methods to Control Parolee Drug Costs

Budget Item in 1760-001-0666:

Provision 8. It is the intent of the Legislature that the state provide parolee medications in the most cost-effective manner. In deciding how to purchase parolee medications, the Department of Corrections, in coordination with the Department of General Services, shall consider, but not be limited to, contracting with a pharmacy benefits manager and purchasing medication under pharmacy contracts used for prison inmates. The Department shall compare the cost of those options and choose the lowest cost options.

COMMENTS:

Members of the subcommittee have requested that DGS staff provide them with an update on the progress and implementation of the language they adopted last year.

ITEM 1880 STATE PERSONNEL BOARD

The State Personnel Board (SPB) is responsible for the oversight of the state's civil service system. SPB ensures that the civil service system is free from political patronage and the employment decisions are based on merit. The Board provides services to state departments in the areas of recruitment, selection, and classification.

The Board consists of five members that are appointed for a ten-year period.

The Governor's budget proposes total expenditures of $19 million funded primarily through reimbursements from other departments.

ISSUE 1: JOINT WEBSITE WITH THE DEPARTMENT OF PERSONNEL ADMINISTRATION

See Department of Personnel Administration (Item 8380 Issue 3).

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

The Department of Personnel Administration 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 $91 million, with funding primarily from the General Fund ($34 million) and the Flexelect Benefit Fund ($27 million).

ISSUE 1: EMPLOYEE CLASSIFICATION REFORM

The Governor's budget proposes an additional $1 million in General Funds for the purpose of beginning to reform the state employee classifications and determine appropriate testing instruments for the revised state classification structure. This process will be a joint effort between the State Personnel Board and the Department of Personnel Administration.

The funds will be used to hire consultants, assess the current systems, provide recommendations for maintenance or change, and develop a comprehensive strategy and business plan for implementation of reform.

BACKGROUND

The State Classification system has changed limitedly since the creation of the California civil service system. The California Performance Review (CPR) SO47 stated that "The State's classification plan contains too many classifications, is inflexible, and is too cumbersome for today's HR needs." The Little Hoover Commission stated "The State examination and selection process should be adaptable to the needs of individual departments and specific positions, while more effectively allowing for merit-based decisions."

LAO

The large number of classifications, many of which apply to a small number of employees, do limit managerial flexibility and can lead to disputes between employees and departments according to the LAO. There are also other factors affecting the efficiency and effectiveness of our state hiring practices such as overlapping authority of DPA and State Personnel Board.

Rather than conduct a piecemeal study of specific components of the system, the LAO recommends the administration provide a comprehensive proposal for reforms to all state classifications, as well as the rest of the state civil service system.

COMMENTS

With over 4,500 separate job classifications, many groups have called for some sort of reforms to the classification system. However, other key factors must be done in coordination with this reclassification process, such as changing the civil service testing system. If we complete a reclassification effort and reduce the number of classifications we have, that will only make things worse under our current system of testing applicants. Our current testing system doesn't allow you to look at specific skill sets an employer may be looking for, so with fewer classifications, it would be come even more difficult for an employer to pick qualified applicants from the pool. Both the State Personnel Board and DPA recognize these concerns.

The State Personnel Board has requested funding to replace the existing State Examination and Certification system. Prior to the completion of those changes, it may be premature to make changes in the classification system without an examination and certification system that can handle those changes.

A proposal for the complete reform of the civil service system, including a description of the proposed new system, time it will take to complete (including phases if necessary), and the cost and resources necessary to complete each phase, may be beneficial to the committee.

ISSUE 2: WORKFORCE PLANNING POSITION

DPA requests an augmentation of $140,000 ongoing funds for 1.0 exempt positions to act as the "State Workforce Planning Administrator" to coordinate and manage the provision of workforce and succession planning consultation and training service for State departments. This position will help departments prepare for the large number of retiring state employees and how to prepare for their departure.

The California Performance Review and the Little Hoover Commission have both cited the potential upcoming challenges the state will face due to record numbers of retiring state employees.

The position proposed will identify existing resources to provide to departments with guidance and training. Individual departments will be responsible for undertaking the actual efforts needed.

LAO

Recommends rejecting this proposal and suggests that "hiring a single individual to provide consulting and assistance services to departments would be an ineffective response to this issue." They recommend a more comprehensive approach to deal with the issue.

COMMENTS

This position seems to be focused on coordinating existing resources and responding to the media regarding state workforce planning efforts. The actual development of plans and implementation will still fall on the individual department level using existing resources.

ISSUE 3: JOINT WEBSITE WITH THE STATE PERSONNEL BOARD

DPA Requests a one time General Fund augmentation of $200,000 for 2006-2007 and an ongoing augmentation of $100,000 for 2007/2008 and thereafter. This funding will be split evenly between DPA and the State Personnel Board (SPB). ($100,000 to each department in 2006-2007, and $50,000 ongoing costs for each department.) This funding will be used to implement and maintain a Human Resources Internet Portal Service Center.

Currently, California's personnel management system is split between the SPB and DPA. The functions and information provided on the two separate websites are not coordinated, even though each organization has overlapping and related responsibilities. The websites currently duplicate some issues, and poorly coordinate others.

A coordinated site would allow a user who goes to either site (www.spb.ca.gov or www.dpa.ca.gov) to be directed to one main site. That site would have links that lead to pages controlled and maintained by the entity that currently operates those pages.

LAO

LAO points out that the DPA reports .5 staff positions and $50,000 devoted to management of its website. The SPB reports 2.5 positions and over $260,000 in resources devoted to its website.

SPB and DPA point out, in response, that a large majority of that budgeted money is already allocated to existing IT needs. Combined with the loss of staff over the last few years, they feel it would be difficult to absorb new workload within existing resources.

LAO also point out that "required planning documents" were not submitted on time. State IT projects require a Feasibility Study Report (FSR) to be completed to address any issues that may come up. This was not completed prior to submittal of the BCP.

COMMENTS

The proposal requests ongoing funds to complete tasks that could be completed by existing staff in the departments who will still be responsible for all but the front "portal" page. With 3.0 staff and over $300,000 in resources available, it may be possible for existing staff to make improvements on their own.

ISSUE 4: LEGAL OFFICE STAFFING – CONSENT ITEM

The Governor's budget proposes an additional 6 positions and $852,000 in reimbursement authority to meet the current workload demands of the Department of Personnel Administration's legal office. Demand is increased due to a rise in litigation relating to collective bargaining issues and legal actions regarding state employees.

Since 2000-2001, the Legal Division has dropped from 51 permanent staff positions to 39 while litigation workload has increased by 66% over the same time period. DPA is also dealing with several federal lawsuits against the Department of Corrections and Rehabilitation (CDCR), most notably *Coleman v. Schwarzenegger, Plata v. Schwarzenegger*, and *Madrid v. Woodford.* These cases demand much time from the Legal Division's staff.

COMMENTS

It should also be noted that should DPA be unable to meet the necessary demands of state agencies and departments, some outsourcing may be necessary to accommodate the workload. This will most likely result in overall increased costs to the state.

ISSUE 5: ENROLLEE FUNDED VISION CARE PROGRAM (PER AB 2242) – CONSENT ITEM

The Governor's budget proposes one new position and $82,000 in reimbursement authority for the purpose of creating an enrollee funded vision care program for state retirees. Currently, retirees are eligible for both health care and dental care funded by the state. This vision plan would be a stand-alone pool, separate from the active employees' plan. There would be no cost to the state to administer this program.

COMMENTS

According to DPA, since 1988 there have been numerous legislative bills attempting to provide a vision benefit to State annuitants. In 1990, PERS was authorized to establish a vision benefit for State annuitants, but no funding was approved.

ISSUE 6: DEFERRED COMPENSATION FUND - SAVINGS PLUS PROGRAM – CONSENT ITEM

DPA requests an augmentation for spending authority of the Deferred Compensation Fund of $1.7 million in 2006/2007. They propose this amount to grow to $3.2 million on 2010/2011 to fund the third-party administrator costs for providing recordkeeping and trustee services to the State's 457 and 401(k) Defined Contribution Plans and the Part-time Seasonal and Temporary (PST) Retirement Program.

DPA entered into a 5 year contract for these services in January of 2006. This new contract includes an increase in services including education and outreach, a dedicated processing team, and specialized investment fund administration. This increase in services corresponds with an increase in the cost per participant to the program. Cost to the participating individuals will remain the same.

This increase does not have an affect on the General Fund as funding comes from reimbursements received from the program's investment providers and monthly administrative fees assessed against the participant's accounts.

ISSUE 7: FINANCE LETTER – HUMAN RESOURCE MANAGEMENT SYSTEM – CONSENT ITEM

This request is to reduce the DPA reimbursement authority by $48,000 for 2006-2007. It also requests that DPA staffing for the 21st Century Project be decreased by one limited-term position, and that the remaining seven one year limited-term positions proposed in the Governor's Budget be converted to two-year limited-term positions.

COMMENTS

This finance letter request includes moving some duties from the DPA to the State Controllers Office for the 21st Century Project. The committee will hear these issues for the State Controllers Office at a future hearing. The DPA requested changes are in response to those changes proposed for the State Controller Office.

ITEM 8660 PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) regulates investor-owned natural gas and electricity utilities, telecommunications services, water companies, railroads, and certain passenger and household goods carriers. Specific activities include enforcement of safety regulations, regulation of rates for services, and promotion of energy and resource conservation. The PUC consists of five members appointed to 6-year terms by the Governor.

The Governor's Budget proposes $1.2 billion from special funds financed by utility ratepayers and 884.5 personnel-years (PYs) of staff for support of the PUC and its programs in 2006-07, including $861.4 million for Universal Service telecommunications subsidy programs and $258 million for the Gas Consumption Surcharge Program (low-income natural gas rate assistance programs, energy efficiency and conservation activities, and public interest research and development related to natural gas). This represents an increase of 33.7 PYs (4 percent) of staffing and an overall funding increase of $18.7 million (1.5 percent) from the revised 2005-06 budget.

Public Utilities Commission
Budgeted Expenditures
(in thousands)

Program	Actual 2004-05*	Estimated 2005-06*	Proposed 2006-07*
Regulation of Utilities	$414,998	$350,685	$364,956
Universal Service Telephone Programs	701,986	858,035	861,420
Regulation of Transportation	13,849	16,498	17,509
Administration	17,868	16,435	20,925
Distributed Administration	-17,868	-16,435	-20,925
Total Expenditures	**$1,130,833**	**$1,225,218**	**$1,243,885**

Note: The following budget proposals will be heard at a subsequent hearing:

1. **Telecommunications Bill of Rights.** Governor's Budget proposal for $9.9 million and April 21st Finance Letter request to augment that amount by an additional $2.8 million.

2. **Governor's Climate Action Plan**. Request for 12 additional positions.

ISSUE 1: STAFF REDIRECTIONS

The Governor's Budget proposes the following staff redirections:

- **Division of Ratepayer Advocates (DRA).** The budget proposes to redirect 6 positions within DRA—5 for water rate cases and 1 for telecommunications workload. These staff would be redirected from DRA workload related to electric and gas utilities.

- **Energy Division.**

  - 12 analyst positions to implement the Governor's Climate Action Strategies (these new activities will be discussed at a subsequent hearing). The redirections would come from other, often related, functions in the PUC's Energy Division and from elimination of 6 staff to inspect payphones throughout the state (which the PUC indicates may require legislation).

  - 3 technical positions (o assist with implementing the RPS, distributed generation policies, and the Governor's Million Solar Roofs initiative. Staff will be redirected from utility reliability functions and from support of the Low Income Oversight Board.

  - 4 positions to verify and evaluate utility energy efficiency programs and to implement advanced metering and demand response programs. Of the 4 positions, 3 also will come from the payphone program and 1 from support of the Low Income Oversight Board.

  - 2 positions to handle increased workload for General Rate Cases for the three major electric utilities. The redirection will reduce staff available to process other rate decisions, such as those affected smaller electric utilities.

  - 2 positions for workload needed to monitor utility procurement of energy resources. These positions also would be redirected from the Low Income Oversight Board, leaving the board without technical support.

- **Small Business Liaison.** One position redirected from commission outreach, communications, and public forums in the Inland Empire.

PUC Identifies Need for More Staff. The PUC, based on a detailed staff analysis of its programs estimates that it would need more than 50 additional positions to carry out its existing statutory mandates, Governor's directives and policies, and commission-adopted programs.

Redirections or Policy Changes? Most of the redirections proposed by the Governor's Budget are within the same general functional areas of the PUC, and thus represent a reallocation of workload within those areas. However, redirections from the Low Income Oversight Board and from the Payphone Program would essentially eliminate staffing for those functions, and the redirected positions would be used for unrelated purposes. Consequently, these redirections represent the following policy changes:

> ***Low-Income Oversight Board.*** The budget would redirect all 4 positions (and $351,000) currently assigned to provide technical support to the board, which advises the commission on the implementation of electricity and natural gas programs targeting at assisting low-income households. The redirected staff also provide staff analyses to the commission concerning utility funding proposals for low-income proposals. Two positions would remain to continue clerical and administrative support.

Payphone Inspection and Enforcement Program. The budget would redirect all 9 positions (and $654,000) in the Consumer Protection and Safety Division currently assigned to inspect payphones throughout the state. The number of payphones is declining rapidly as cell phones proliferate. Furthermore, the PUC indicates that the current inspection program may not be the best approach to cost-effective consumer protection. As an alternative, the commission is considering an 800 number complaint line. The elimination of the payphone inspection function requires legislation, which has not yet been provided by the PUC.

COMMENTS

1. The PUC indicates that the provision of technical support for the Low Income Oversight Board and for analysis of utility low-income proposals is an ongoing workload with high priority. No justification has been presented for ending this support. The new positions that would be created through the redirection are in the Energy Division and unrelated to the payphone program, and they should be considered on their own merits.

2. Given the continuing reduction in payphones, and changes in the telecommunications industry, reducing payphone inspection staffing may be warranted. However, absent policy legislation, it would be premature to eliminate all staffing for oversight of payphones in California. Instead, it would be more appropriate to maintain a very small core staff (perhaps 3 positions) to enable the PUC to maintain some oversight of pay phones in 2006-07.

ISSUE 2: RAIL SAFETY

The Governor's budget proposes $1.4 million ($946,000 PUC Transportation Reimbursement Account, $252,000 State Highway Account, and $180,000 Public Transportation Account) and 14.2 positions to enhance rail safety through additional accident investigations, evaluations of quiet zone notices, railroad inspections, and oversight of rail transit agencies' homeland security programs. Specifically, this proposal includes the following:

- Continue on a permanent basis 10 limited-term positions for railroad safety inspections (6 positions) and rail safety analysis (3 positions, plus one supervisor) at a cost of $946,000. These positions were included in a legislative augmentation to the 2005-06 Budget. The Governor vetoed several additional legal and federal coordination positions and stated that he was approving the 10 positions on a one-time basis pending PUC action to correct deficiencies in accounting for program funds. The PUC indicates that it has corrected those deficiencies, and the budget now seeks to make the positions permanent.

- Add three staff at a cost of $252,000 for the Rail Crossing Engineering Section in order to increase safety at rail crossings, investigate crossing accidents, and carry out federal requirements, including approval of Quiet Zones.

- Add two staff at a cost of $180,000 for rail transit safety accident investigation and rail transit security oversight. The PUC indicates that these positions would backfill positions that it has diverted to address increased workload for oversight of rail transit construction projects.

COMMENTS

The 2005 Budget Act provided $100,000 from the PUC Transportation Reimbursement Account to fund a study of land use planning to promote rail safety, vandalism prevention, and terrorism-related safety issues, and emergency response capabilities for rail accidents. The original due date specified for the study was April 1, 2006. However, work on the study has been deferred pending further elaboration of the specifics of the study, which would be accomplished by the Special Railroad Safety Task Force, which would be established by AB 158 (Bermudez). Work would begin in 2006-07 and extend into 2007-08. Accordingly, the $100,000 provided in the current year should be reappropriated for a two-year period for the purpose of funding the Special Railroad Safety Task Force.

ISSUE 3: CONSENT BUDGET CHANGE PROPOSALS AND FINANCE LETTER REQUESTS

- **Headquarters Building Improvements and Child Care Study.** The budget requests one-time funding of $1,122,000 of ratepayer funds for a variety of maintenance repairs and energy efficiency improvements at the PUC's San Francisco headquarters. The request also includes $500,000 for relocating the building's child care center from the basement to the first floor of the building.

- **Workstation Makeover.** The Governor's budget proposes $2.4 million in 2006-07 to be followed with an additional request for $2.4 million in 2007-08 to replace the PUC's modular workstations, which were purchased in 1986.

- **Division of Ratepayer Advocates (DRA) Lead Attorney.** The Governor's budget proposes $154,000 of ratepayer funds to establish a lead attorney position within the DRA, as provided for in SB 608 (Escutia).

- **Finance Letter Request to Adjust High-Cost A Expenditures.** A March 30th Finance Letter requests an increase of $14.3 million in spending authority for the High-Cost Fund A program to conform with the PUC's final approved resolution for program operation in 2006-07. This program is financed by a ratepayer surcharge and allocates money among the smaller telephone companies in order to subsidize their cost of serving high-cost areas.

ITEM 8885 COMMISSION ON STATE MANDATES

The task of the Commission on State Mandates is to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The commission was created as a quasi-judicial body to determine state mandated costs and consists of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county supervisor, or school district governing board member, appointed by the Governor and approved by the Senate.

Commission Support. The budget proposes General Fund support of $1.6 million in fiscal year 2006-07 and 13.6 personnel-years (PYs) of staff for support of the commission. These amounts are essentially the same as in the current year.

Mandate Payments. The bulk of the commission's budget is for local assistance to reimburse local governments for their costs of carrying out state-mandated local programs. The budget proposes $241.7 million ($240 million General Fund) for these payments in 2006-07, an increase of $120.7 million from the current year amount within the commission's budget. However, year-to-year spending remains essentially flat after adjusting for a budgeting change. The budgeting change is for AB 3632 mental health services to special education pupils--$120 million was provided in the Department of Mental Health's budget in the current year, but the Governor's budget shifts funding for this mandate to the commission's budget in 2006-07 (at $50 million). In addition, the Governor's Budget separately proposes funding for certain Proposition 98 mandate payments in the budgets of the Department of Education and the California Community Colleges.

Proposition 1A Mandate Payment Requirements for Non-Education Local Governments. Proposition 1A, adopted by the voters in November 2004, generally requires that the state either fund approved mandate reimbursement claims (as of the time that the budget is enacted) or suspend any unfunded mandate. There are a number of exceptions. The "pay or suspend" rule does not apply to claims for costs incurred prior to fiscal year 2004-05 (these "deferred" payments are to be paid over a 15-year period starting in fiscal year 2006-07 under existing law), mandated costs for school districts or community colleges, or mandates relating to local government employee relations and benefits.

After several years of deferring most mandate payments due to the state's fiscal problems, the 2005-06 Budget appropriated a total of $241 million for mandate payments to local governments (including $120 million appropriated to the Department of Mental Health for AB 3632 mandate costs of counties). This amount consisted of outstanding $133.2 million for 2004-05 mandate cost claims, (which were required to be paid in the 2005-06 Budget to comply with Proposition 1A) and $107.9 million for payment of claims for 2005-06 costs. Costs for the Peace Officers Procedural Bill of Rights, which is not subject to Proposition 1A, continued to be deferred, and a variety of mandates were suspended, repealed, or revised. Although Proposition 1A's "pay-or-suspend" rule did not require the payment of 2005-06 claims until 2006-07, the Legislature and the Administration made a policy choice to provide more timely payments to local governments and to more fully recognize the costs of mandated programs in the state budget.

DOF Mandate Unit. The Department of Finance Budget also requests $537,000 financed from mandate cost savings and 3.8 positions for a unit within the department devoted to addressing issues related to reimbursable state-mandated local programs. The purpose of this unit is to perform policy and legislative analyses, develop policy and processes to improve the mandates system, and ensure fair and equitable payment of costs associated with mandated local programs.

ISSUE 1: MANDATE PAYMENT FUNDING

The Governor's 2006-07 Budget proposes the following amounts for mandate payments to local governments in 2006-07:

- $47.9 million for payment of 2006-07 mandate claims.

- $45.7 million for payment of prior obligations under mandates that have been newly determined by the commission.

- $98.1 million for the first year of a 15-year payment plan to reimburse counties for mandated costs for which funding was deferred in years prior to 2004-05. Local governments have submitted more than $1 billion of claims for reimbursement of these past costs. The State Controller has been reviewing the claims, but funding was deferred in prior years' budgets.

- $50 million of non-Proposition 98 General Fund money as a set-aside in the Commission on State Mandates budget for funding county mental health services to pupils. Budget Bill language states intent to convert this mandate to a categorical program (Please see discussion under the Department of Mental Health).

As in the current year, the budget proposes to suspend many mandates, most of which have been suspended for many years, and to defer payments for the Peace Officers' Procedural Bill of Rights (although repayment of past deferred payments for this mandate is included in the 15-year repayment amount).

LAO Identifies Major Funding Deficiencies. On a preliminary basis, the Legislative Analyst's Office has identified a funding shortfall in the range of $140 million for local government mandate costs in 2006-07 (including carryover deficiencies from 2005-06). The need for increased funding also is underscored by the notification of the Department of Finance (DOF) on April 5th of its intent to transfer $29.3 million appropriated in the 2005 Budget Act from 2005-06 mandate costs to claims for 2004-05 in excess of the amount originally appropriated. This action will leave only $16.6 million remaining for 2005-06 claims. Costs above this amount will need to be provided in the 2006-07 Budget.

COMMENTS

1. **Updated Estimate Needed By May Revision**. DOF indicates that it may *or may not* have an updated estimate of mandate payment costs in time for inclusion in the May Revision, depending on when the State Controller's Office is able to provide the latest claiming data. In any event, the subcommittee will need a preliminary estimate from DOF or LAO at the May Revision in order to include a more accurate amount in the subcommittee's final actions.

2. **Language Needed to Allow Transfers Between Fiscal Years.** The 2005 Budget Act included language (Provision 2 of Item 8885-295-0001) allowing the transfer of funds between the schedule amounts appropriated for the current year and the budget year. This language was not included in the 2006 Budget Bill, but is needed to ensure that the 2006-07 Budget can fully funds valid mandate claims for 2005-06, as required by Proposition 1A. As noted above, DOF has made use of this provision in the current year to pay additional 2004-05 claims.

3. ***County of San Diego v. Westly*.** Because of a recent trial court decision, Legislative Counsel recommends adoption of the following Budget Bill language to provide a clear legislative directive in the item appropriating funds for the partial payment of past deferred mandate claims (Item 8885-299-0001):

   > The funds appropriated by this item shall be allocated only for the payment of claims as required by Chapter 4 (commencing with Section 17550) of Part 7 of Division 4 of Title 2 of the Government Code, which payment shall be made pursuant to Article 5 (commencing with Section 17615) of that chapter. Notwithstanding any other provision of law, interest shall be paid from funds appropriated by this item only to the extent, and in the amount, authorized by Section 17561.5 of the Government Code.

   The language affirms the Legislature's intent to proceed with the repayment under existing mandate law regarding the 15-year repayment period and the interest rate paid to local governments on deferred mandate claims.

ISSUE 2: FINANCE LETTER REQUESTS

A March 30th Finance Letter requests adoption of the following budget changes:

Permanent Positions. The commission requests conversion of three 3-year limited term positions to permanent status. These positions were provided in the 2005-06 Budget to address the Test Claim backlog and other statutory workloads. There is no additional cost for this request in 2006-07. The commission indicates that it has great difficulty, particularly as a very small agency, in filling senior-level positions on a limited-term basis. The commission also indicates that it has additional workload that it anticipates will be ongoing. The request also includes Budget Bill Language requiring the commission to report each September to DOF on its workload and staffing utilization.

Redirection of Mandate Funding to DOF. The Finance Letter also requests the addition of Budget Bill language in the local assistance item for payment of mandate claims that would redirect $557,000 of General Fund money to the DOF budget. The purpose of the redirection would be to fund the proposed new DOF Mandates Unit. This General Fund support would appear as a reimbursement amount in the DOF budget.

DOF Mandate Unit. The Governor's Budget for DOF includes $557,000 of "reimbursements" for 4 positions in order to establish a unit within the department devoted to addressing issues related to reimbursable state-mandated local programs. The purpose of this unit is to perform policy and legislative analyses, develop policy and processes to improve the mandates system, and ensure fair and equitable payment of costs associated with mandated local programs. The department once had a Mandates Unit, but it was eliminated some time ago.

COMMENTS

1. **Permanent Positions.** Normally, this request would be considered premature. However, the commission's small staff size provides little opportunity for movement from a limited-term position to a vacant permanent position, making limited-term positions at the commission even less attractive than they are at larger departments. Staff notes that the future staffing needs of the commission could change, depending on the outcome of the commission's mandate process reform discussions. The annual workload and staffing report also should be provided to LAO.

2. **Redirection of Funding.** There is no reason to fund a DOF Mandates Unit in the proposed convoluted manner. It is inappropriate to divert funds appropriated for local mandate claims payments to instead support state staff at DOF, regardless of the merits of the Mandates Unit proposal. Funding for the proposed DOF staff should be provided the "old-fashioned" way—in the DOF budget.

ITEM 9800 AUGMENTATION FOR EMPLOYEE COMPENSATION

This budget includes funding for state civil service and related employee compensation for changes in the cost of new agreements with employee bargaining units and other costs that don't fit in an individual department's budget. Employee compensation funding is based upon approved Memoranda of Understanding for represented employees that are ratified by the Legislature. Compensation for excluded employees is determined by the Department of Personnel Administration or other authorized entities.

The Governor's budget proposes total expenditures of $382 million and includes $67 million (General Fund) to address the *Plata* Lawsuit. Funding comes primarily from the General Fund and other unallocated Special Funds.

ISSUE 1: EMPLOYEE COMPENSATION – BARGAINING UNIT MOU'S

The Governor's budget proposes funding in accordance with the MOUs signed with 5 collective bargaining units. The budget does not, however, include funding for the 18 bargaining units whose agreements have, or will expire in the next year. The Department of Personnel Administration was augmented in the 2005-2006 budget to fund comprehensive employee compensation surveys. These surveys, when completed, will be used by the administration to guide its negotiations with the remaining bargaining units.

LAO

While it is typical of recent practice to exclude funding for possible new MOUs, LAO points out that up to 90% of state employee's may have expired contracts in 2006-2007. Any new agreements reached are likely to increase, not decrease costs. Each one percent increase in salary for the 18 bargaining units whose contracts will expire before the end of the 06-07 year, could cost $120 million ($65 million General Fund).

The LAO also notes that even without new MOUs signed, health costs for the state will continue to increase. If a new agreement is not reached, the old agreement carries forward, and two-thirds of current MOUs require the state to pay a specific percentage of average health plan premium costs for employees and their dependents. This means that if state health plan premiums rise in 2007 (as expected), the amount the state must contribute will increase as well. This could translate into increases of up to $120 million ($40 million General Fund). This is in addition to any increases approved for salary increases.

COMMENTS

Despite the potential for the costs estimated by the LAO, the administration excludes these costs for possible future MOUs in order to preserve the confidentiality of their negotiating strategy with the bargaining units. Legislation enacting new MOUs can include first-year funding for new salary costs, so this is not critical for inclusion in the 9800 budget. It is important however to note that with 18 units bargaining for contracts, and costs in excess of $120 million for each 1% salary increase, the costs could be substantial and use up significant reserves.

The impending health costs may need to be addressed separately from the other issues in the bargaining unit contracts. The health care costs will be incurred regardless of new MOUs. If health care premiums go up (as expected), unless a new MOU is signed with a decrease in state contribution (not expected), the state will need to cover those costs. Without funding budgeted for this purpose, departments will have to absorb those costs in their regular budget as unallocated reductions.