

AGENDA ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Juan Arambula, Chair

**TUESDAY, APRIL 8TH, 2008, 1:30 PM
STATE CAPITOL, ROOM 447**

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CONSENT ITEMS

ITEM 0559 Secretary for Labor and Workforce Development

ISSUE 1: BUDGET BALANCING REDUCTION – OFFICE OF THE SECRETARY

The Governor's budget proposes a 10 percent cut in the amount of \$200,000 from special funds for the Secretary's office. This will reduce services provided to Departments under the Agency.

ITEM 1900 Public Employees' Retirement System

ISSUE 1: HEALTH INFORMATION SYSTEM SERVICES WEB-BASED SOLUTIONS

The Governor's budget proposes an augmentation of \$646,000 in special funds to support Electronic Health Records and Health Information Technology initiatives.

ITEM 1920 State Teachers' Retirement System

ISSUE 1: INVESTMENT MANAGEMENT AND SUPPORT

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

ISSUE 2: MEMBER ACCOUNT SERVICES

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

ISSUE 3: DISABILITY AND SURVIVOR BENEFITS

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

ISSUE 4: CUSTOMER SERVICE

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

ISSUE 5: COMMUNICATIONS

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

ISSUE 6: GOVERNMENTAL AFFAIRS AND PROGRAM ANALYSIS

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

ISSUE 7: CLIENT OUTREACH AND GUIDANCE

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

ITEM 7100 Employment Development Department**ISSUE 1: BUDGET BALANCING REDUCTION – ADMINISTRATIVE SUPPORT**

The Governor's budget proposes a reduction of \$190,000 to the Department's Administrative Support. This will affect the tax sharing ratio for EDD's administrative services, but not the federal-state tax sharing ratio.

ISSUE 2: HEROES AT HOME

The Governor's budget proposes budget authority of \$5.9 million for the 08-09 portion of the federal grant funds awarded to California for the Heroes at Home demonstration project. This project provides Career Advancement Accounts for active duty military spouses to receive job training.

ITEM 7350 Department of Industrial Relations

ISSUE 1: BUDGET BALANCING REDUCTION – SELF-INSURANCE PLANS

The Governor's budget proposes a \$4,000 reduction in General and Miscellaneous Operating Expense.

ISSUE 2: BUDGET BALANCING REDUCTION – DIVISION OF LABOR STATISTICS AND RESEARCH

The Governor's budget proposes a reduction of \$294,000 from this division by shifting the responsibility for publishing apprenticeship prevailing wage determinations to the apprenticeship division.

ISSUE 3: BUDGET BALANCING REDUCTION – ADMINISTRATIVE SUPPORT

The Governor's budget proposes a reduction of \$553,000 which will be achieved through Operating and Expense reductions (approximately half) and redistributing workload among remaining staff.

ISSUE 4: SECURITY UPGRADES TO DISTRICT OFFICES

The Governor's budget proposes a one time augmentation of \$386,000 (Workers' Compensation Administration Revolving Fund) BY08-09 and \$557,000 BY09-10 to install safety-related components to improve security in the 24 district offices. The CHP conducted security assessments of the district offices, and these are the recommendations DIR found acceptable.

ISSUE 5: RETURN-TO-WORK UNIT

The Governor's budget proposes redirection/reclassification of 22 existing positions within its current Rehabilitation Unit to the newly-created Return-to-Work Unit. Any additional costs associated with the reclassification of these positions will be absorbed by the Division.

ISSUE 6: LEGAL UNIT – LIMITED TERM CONVERSION

The Governor's budget proposes converting one limited-term position to permanent status (\$185,000 per year, special fund). This position supports necessary ongoing regulatory activities.

VOTE ONLY ITEMS

ITEM 1900 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ISSUE 1: RATE DEVELOPMENT AND RENEWAL

The Governor's budget proposes an augmentation of \$417,000 (Special Fund) to expand the Rate Development and Renewal Unit. This unit analyzes the underwriting and actuarial data for the health premium rate renewal process, and develops strategies for negotiating premiums.

The efforts of this Unit produced \$15 million in health premium reductions for the 2008 health plan year. This proposal expands the opportunity for more premium savings for 2009 and beyond.

COMMENTS

This Unit is currently staffed by three full time positions, and receives assistance from the Health Care Information Analysis Unit. During the rate renewal process, this unit has very short time frames to conduct detailed analyses of various scenarios which can produce premium savings in the following year.

ISSUE 2: PUBLIC AGENCY CONTRACTS – ACCOUNT REPRESENTATIVES

The Governor's budget proposes \$235,000 and two positions for the Office of Employer and Member Health Services (EMHS) and the Public Agency and Schools Program. This program has seen workload growth, and increased complexity in the health care marketplace, but has not increased staffing levels in five years.

This program is also responsible for providing health benefits to state employees. Maintaining the existing participating agencies and attracting new participants helps to ensure risk pool stabilization. These positions will help achieve this goal.

More and more agencies are participating in these programs, requiring increased customer service, as well as a need to provide guidance and technical assistance. There are currently over 1,100 public agencies enrolled.

COMMENTS

This program helps decrease premium costs for participants.

ISSUE 3: HEALTH PROGRAM RECEIVABLES

Related to the previous item, the Complementary Annuitant Premium Program (CAPP) deals with around 1,400 annuitants whose retirement warrants are not sufficient to cover their health premiums. This program allows annuitants to continue to receive their health benefits by paying PERS the balance of the premiums.

The Governor's Budget proposes \$352,000 and 3 positions to address a near doubling in participation since the last staffing increase.

COMMENTS

This is an important program to those individuals who utilize it as they may not be able to afford health care in retirement without it.

ISSUE 4: QUALITY CONTROL AND SPECIAL PROJECTS UNIT

The Governor's Budget proposes \$117,000 and one position for the Data Reconciliation Unit to support workload, implement quality control functions, and facilitate a revitalized training program.

This unit actively identifies enrollment discrepancies, system problems, and other activities which create inaccurate enrollment and premium assessments. With existing staffing, there is no feedback loop. These proposed positions will enable the Unit to analyze the cause of the errors and train employees on the front end to minimize input errors before they occur.

COMMENTS

This request will promote efficiency within the enrollment process.

ISSUE 5: ENROLLMENT AND ELIGIBILITY UNIT

The Governor's Budget proposes \$216,000 and 2 positions. These positions will assist with the workload for the Enrollment and Eligibility Unit which serves as the Health Benefits Officer for retirees and their families.

COMMENTS

This request is tied to the two previous health care service requests heard.

ISSUE 6: HEALTH EDUCATORS

The Governor's Budget proposes establishment of 2 positions to accomplish mandatory education and communication requirements for PERS staff, members, and employers. Expanding enrollment and increased duties have increased the need for providing Health Benefits information, training of staff, and answering the member assistance line.

ITEM 1920 STATE TEACHERS' RETIREMENT SYSTEM**ISSUE 1: LEGAL SERVICES**

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

COMMENTS

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

ISSUE 2: LEGAL SERVICES/COMMUNITY PROPERTY

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

COMMENTS

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

ISSUE 3: HUMAN RESOURCES

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

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

COMMENTS

This will provide efficiency within the STRS Human Resources process.

ISSUE 4: HUMAN RESOURCES OFFICE

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

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

ISSUE 5: VOICE OF THE CUSTOMER

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

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

COMMENTS

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

ISSUE 6: QUALITY & TRAINING SERVICES

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

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

COMMENTS

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

ISSUE 7: FACILITIES MANAGEMENT, PLANNING AND SERVICES

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

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

COMMENTS

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

ISSUE 8: ACCOUNTING

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

ISSUE 9: INFORMATION TECHNOLOGY SERVICES

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

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

COMMENTS

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

ISSUE 10: GOVERNMENTAL AFFAIRS AND PROGRAM ANALYSIS

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

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

COMMENTS

STRS currently has 4.5 positions in this department.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 1: EFFECTIVE INJURY AND ILLNESS PREVENTION PROGRAMS

The Governor's Budget proposes one-time budget augmentation of \$307,000 (no staffing) to assist any school or district that has high risk of occupational injury or illness and a need for establishing and maintaining effective programs pursuant to state mandate.

Priority for funding will be given to schools or districts with high risk. The funding for this request comes from penalties levied pursuant to Labor Code Section 6434. These funds can only be used for this purpose.

ISSUE 2: STATEWIDE FACILITIES

This proposal requests \$875,046 (Special Fund) to support costs associated with additional space in the LA, Riverside, and Santa Ana district offices along with relocation of the Grover Beach district office.

COMMENTS

The Department has some unique space needs such as waiting areas for claimants, hearing rooms, etc. that impose increased facility costs beyond the standard state rate. These funds will help them bring their facilities up to standard and to meet their needs.

ITEMS TO BE HEARD

ITEM 0559 Secretary for Labor and Workforce Development

The Labor and Workforce Development Agency (Agency) brings together the departments, boards, and commissions which train, protect, and provide benefits to employees. The Agency is primarily responsible for three different types of functions: labor law enforcement, workforce development, and benefit payment and adjudication. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board and the Workforce Investment Board. The Agency also provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor's budget proposes \$3.1 million (reimbursements from departments and penalty assessments) and 16.9 positions for the Secretary's budget – an increase of \$500,000 and 2 positions.

ISSUE 1: AGENCY INFORMATION OFFICER

This proposal requests \$416,000 (Reimbursement Authority) to establish an Agency Information Officer (AIO). This position would be responsible for coordination of major technology projects of which there are currently six under the Agency.

The goal of this proposal is to provide a position at the agency level to perform oversight of over \$293 million in major IT projects.

In addition to the cost for the requested position this request includes \$242,000 for administrative support. Because of the size of the Agency, it has been determined that it is most cost effective to contract with the Employment Development Department (EDD) to provide these administrative services.

COMMENTS

Competent oversight of IT projects at the Agency level could help provide project efficiency and help ensure meeting the many state requirements in regards to major IT projects.

The administrative services costs are not new and have been achieved through salary savings in previous years. The nexus between those costs and this proposal is not entirely clear.

ISSUE 2: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION

The Secretary of the Labor and Workforce Development Agency ensures that there is a Cabinet level participant in the Economic and Employment Enforcement Coalition (EEEC). They also provide oversight over the various enforcement arms of Department of Industrial Relations (DIR), Employment Development Department (EDD), and the Agriculture Labor Relations Board (ALRB). This high level position is useful for cross agency collaboration.

COMMENTS

For more EEEEC information see items in EDD and DIR below.

ITEM 1900 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefits for more than 1.5 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.

The Governor's Budget proposes \$14.9 billion primarily from the Public Employees' Retirement Fund and 2,186 positions, an increase of \$1.2 billion.

ISSUE 1: LAO ANALYSIS

1) According to LAO, CalPERS' inconsistency in discussing its funded condition may confuse policy makers and the public. In 2007, the California Public Employees' Retirement System (CalPERS) changed its method for communicating the funding status of its pension funds to policy makers and the public.

Almost all public pension systems disclose their unfunded liabilities using a smoothed, actuarially determined value of assets. These figures, in turn, are used to determine employer contribution rates.

In 2007, CalPERS changed how its officials and key public documents disclosed its unfunded pension liabilities. Instead of describing its liabilities based on the smoothed value of assets used to set employer rates CalPERS began publicly disclosing this financial indicator based on a calculation that uses the market value of its assets. Due to CalPERS' strong investment gains in recent years, this change allowed the system suddenly to start discussing how its major pension funds were fully funded or approaching "full funding" during 2007.

With the smoothed value of assets used by the system to set employer rates, PERF had a \$29 billion unfunded liability as of June 30, 2006 (meaning its liabilities were 87 percent funded). With the market value of assets now used by the system in discussing its unfunded liabilities, PERF had a \$17 billion unfunded liability on the same date (suggesting its liabilities were 93 percent funded). This is because the market value of PERF assets was \$12 billion greater on that date than its smoothed value of assets.

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

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

COMMENTS

The Committee may wish to request a response from PERS on the LAO recommendations.

ITEM 1920 STATE TEACHERS' RETIREMENT SYSTEM

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

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

ISSUE 1: PERSONAL PROPERTY FOR NEW HEADQUARTERS PROJECT

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

COMMENTS

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

ISSUE 2: SUPPLEMENTAL BENEFITS MAINTENANCE ACCOUNT (SBMA) PROPOSAL

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

This differs from existing law under which the SBMA benefit is not guaranteed, but is only provided to the extent funds are available. The specification of payment dates corresponds with this committee's action taken in Special Session to make the 08-09 payment on November 1st.

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

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

LAO

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

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

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

COMMENTS

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

ISSUE 3: LAO ANALYSIS

See PERS LAO analysis above as both issues regarding reporting of funding status and auditing requirements were also stated in regards to STRS.

COMMENTS

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

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is responsible for administering the Unemployment Insurance (UI) and Disability Insurance (DI) programs. The department collects from employers (1) their UI contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholding. In addition, it pays UI and DI benefits to eligible claimants. The department also, with the assistance of the State's Workforce Investment Board (WIB), administers the federal Workforce Investment Act (WIA) program, which provides employment and training services. In addition, local area WIBs partner with EDD's Job Services program to provide job matching and training services to job seekers and employers.

The Governor's budget proposes expenditures totaling \$11.7 billion from all funds for support of EDD. This is an increase of \$400 million. The increase is primarily the result of higher estimates of Unemployment Insurance and Disability Insurance benefits for the budget year. The majority of EDD's funding comes from the Unemployment Fund and the Unemployment Compensation Disability Fund. The budget also proposes \$25.6 million from the General Fund, a decrease of \$6 million compared to the current year.

ISSUE 1: AUTOMATED COLLECTION ENHANCEMENT SYSTEM

This proposal requests \$2.8 million (\$2.5 million General Fund) and 18 positions to fund year three of the Automated Collection Enhancement System (ACES) project.

Upon full implementation, the ACES project is expected to increase the effectiveness of the EDD tax collection operations, increasing revenue by approximately \$71.4 million by the end of 2012-13 and each year thereafter. This project will use state-of-the-art employer tax collection, storage, account management, and data retrieval technologies to maximize EDD's tax collection practices. It will also assist in the collection of penalties and back-wages due to DIR.

This proposal actually accelerates the project by 6 months, doubling the amount of expected increased revenue in 09-10 to \$40 million. This revenue in part, will pay for the "prime solution provider" (PSP) who will begin work January 2, 2009. Because the PSP is paid based on increased revenue generated, this produces no costs for the state.

This proposal requests the staff necessary to keep the project moving forward.

COMMENTS

This project is "benefits-based", meaning that the additional revenue generated by ACES will offset all project costs. While the State has to put up funding upfront to initiate the project, this method does minimize cost risks to the state.

With increased revenue expected to come in next year, any delay's in this project will actually result in lost funding for the state.

ISSUE 2: DISABILITY INSURANCE AUTOMATION (DIA) PROJECT

This proposal requests a one-time augmentation of approximately \$1 million (Disability Insurance Fund) for 6.6 positions to continue the third year of procurement, development, and implementation of the DIA project.

This is expected to be a six year implementation process, with the bulk of the funding needed in 09-10 and 10-11 for payment of the systems integrator (SI). This year's costs are to continue funding the Independent Project Oversight consultant, complete activities necessary to hire the SI (including RFP development), and ramping up project management activities to prepare for system integration.

The purpose of the DIA system is to allow claimants, medical providers, and employers to use the internet to submit claims data. Scanning systems are also being included in the new system to convert remaining paper claims to electronic format.

COMMENTS

Along with providing much efficiency for the Department, this project will help bring EDD's practices in compliance with the Health Insurance Portability and Accountability Act (HIPAA).

ISSUE 3: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION

This proposal for \$2.5 million (Special Fund) and 25 positions is linked with requests for funding in the Department of Industrial Relations, State Contractors License Board, and the Labor and Workforce Development Agency.

The Economic and Employment Enforcement Coalition (EEEC) is a joint agency education and enforcement effort. It was established in 2005-2006 as a joint effort by State and Federal agencies to combat the "underground economy". The EEEEC conducts multi-agency sweeps, primarily focused on industries known to have high involvement in the underground economy, including: agriculture, construction, car wash, garment, janitorial, restaurant and racetracks.

Since 2005, EDD alone has logged over 2,000 inspections 300 audits, and collected over \$1.3 million. Additionally, they have registered over 150 new employers, but only 25% of those new registrants continue to file and pay their employment taxes. Still, those are now legitimate employers who previously were not contributing to the tax base.

The effort is aimed to both collect funds that these individuals should be paying to the state, as well as eliminate the unfair advantage these employers gain over law-abiding businesses that compete with them.

COMMENTS

While it is difficult to calculate the real effect of these efforts, it does appear that they are having at least some measure of success in both education and enforcement. This proposal includes plans to further evaluate their efforts under EEEEC. These measures include development of an outreach survey, conduct random re-inspections of businesses (good to address the 25% maintenance of new registrants), and other tracking data.

ISSUE 4: WORKFORCE INVESTMENT ACT FUNDING

EDD is responsible for administering the federal Workforce Investment Act Program, offering a comprehensive range of workforce development activities through statewide and local organizations. These services, primarily offered through "One-Stop Career Centers", are aimed at promoting an increase in employment job retention, earnings, and occupational skills for the participants.

Pursuant to federal law, 85 percent of the state's total WIA funds (an estimated \$321.3 million in 2008-09) are allocated to local Workforce Investment Boards (WIB). The remaining 15 percent of WIA funds (\$56.7 million in 2008-09) are available for state discretionary purposes such as administration, statewide initiatives, and competitive grants for employment and training programs. Funding is provided by the Federal Government based on formulas, and how it may be spent is largely dictated by the Federal Government as well. A majority (85%) of the funding goes to local centers for use. The remaining 15% (approximately \$56 million) goes towards Administration of the program, "Growth Industries", "Industries with a statewide need", and "Removing barriers for special needs populations". Administration makes up nearly half of these costs, but it is for administration of the entire \$378 million, not just this portion of the funding.

LAO

The 2008-09 Budget Bill schedules the proposed expenditure of federal Workforce Investment Act (WIA) discretionary funds within broad categories. We compare proposed expenditures for the budget year with the current year and recommend the redirection of \$3.9 million in WIA funds proposed for pre-apprenticeship projects and regional collaboratives to instead offset General Fund costs in the parolee employment programs.

Comparing the 2008-09 Budget to the 2007-08 Appropriation. The administration's proposal for the three program categories contains significant changes from the programs and projects that were reviewed and approved by the Legislature during the 2007-08 budget process. The administration's 2008-09 proposal reduces the amount of funds directed to high wage/high skill job training (-\$1.3 million), services to long-term unemployed (-\$1.6 million), youth grants(-\$1.5 million), and parolee services(-\$4 million).

The budget proposes an additional \$0.6 million to regional collaboratives and \$0.8 million to incentive grants. Furthermore, the budget proposes a total of \$10 million for the at-risk/youthful offender gang prevention initiative (an increase of \$7.2 million) and \$2.4 million for the pre-apprenticeship Governor's pilot projects.

The budget proposes \$2.4 million for pre-apprenticeship Governor's pilot projects. In prior years, WIA discretionary funds have been awarded to similar pre-apprenticeship projects targeting various (1) populations, such as Vietnam War veterans, older workers, youth, and limited English speakers, and (2) industries, such as construction, hotel management, and security. While not an entirely new funding initiative, the pre-apprenticeship program was recently added to the 2007-08 expenditure plan through a notification to the Joint Legislative Budget Committee.

Figure 1
Workforce Investment Act (WIA) State Discretionary Funds

(In Millions)

Budget Bill Schedule/Category	2007-08 Appropriation	Proposed 2008-09	Change
(1) WIA Administration and Program Services	\$26.6	\$24.0	-\$2.6
(2) Growth Industries			
Community colleges WIA coordination	\$0.6	\$0.6	—
Regional collaboratives	0.6	1.2	\$0.6
Incentive grants	0.2	0.2	—
High wage/high skill job training	1.3	—	-1.3
At-risk/youthful offender gang prevention	—	3.0	3.0
Subtotals	(\$2.7)	(\$5.0)	(\$2.3)
(3) Industries With a Statewide Need			
Nurse education initiative	\$6.2	\$6.2	—
Regional collaboratives	0.3	0.3	—
Nurses/healthcare/construction/logistics	3.1	3.1	—
At-risk/youthful offender gang prevention	—	3.0	\$3.0
Pre-apprenticeship Governor's pilot projects	—	2.4	2.4
Subtotals	(\$9.6)	(\$15.0)	(\$5.4)
(4) Removing Barriers for Special Needs Populations			
Parolee services	\$6.3	\$2.3	-\$4.0
Incentive grants	0.5	1.3	0.8
Services to long-term unemployed	1.7	0.1	-1.6
Governor's award for veteran's grants	3.0	3.0	—
Veterans/disabled veterans' employment services	0.7	0.7	—
Department of Education WIA coordination	0.4	0.4	—
Youth grants	2.0	0.5	-1.5
At-risk/youthful offender gang prevention	2.8	4.0	1.2
Low wage earners	0.4	0.4	—
Subtotals	(\$17.8)	(\$12.7)	(\$5.1)
Total Proposed Expenditures	\$56.7	\$56.7	—

At the time this analysis was prepared, the EDD was unable to provide outcome data and evaluations to demonstrate the effectiveness of this program. Moreover, past pre-apprenticeship projects targeted populations and industries that are typically served by other WIA programs. Therefore, we believe there is insufficient justification for the \$2.4 million proposed for pre-apprenticeship Governor's pilot projects.

The budget also proposes \$1.5 million (\$1.2 million within Growth Industries and \$300,000 within Industries with a Statewide Need) for regional collaboratives. According to EDD, this program funds training projects identified by regional collaboratives of business, labor, private foundations, and other public agencies. Generally, these collaboratives showed no significant advantage over other established workforce development entities in providing effective workforce services. Given this weak evaluation, we believe there is insufficient justification for the \$1.5 million proposed for regional collaboratives.

A share of WIA discretionary funds also provides funding for several parolee employment programs operated by the Department of Corrections and Rehabilitation (CDCR). We found that these parolee employment programs have value in reducing recidivism for parolees. Investment in effective parolee employment programs is likely to yield some long-term savings from reduced incarceration. For 2008-09, the budget proposes a total of \$8.5 million for CDCR parolee programs, with \$2.3 million in WIA funds and \$6.2 million in General Fund. This is a decrease of \$4 million in WIA funds for CDCR parolee programs from the amount that was appropriated for the current year.

Based on our review, we conclude that the pre-apprenticeship pilot projects and regional collaboratives do not have the record of effectiveness demonstrated by parolee employment programs. Therefore, we recommend redirecting a total of \$3.9 million—\$2.4 million from pre-apprenticeship and \$1.5 million from regional collaboratives—in WIA funding to the parolee employment programs in CDCR (Item 5225). This redirection will result in an equal amount of General Fund savings in that item.

COMMENTS

The LAO raises valid concerns about the appropriate use of these funds. The Committee may wish to consider alternatives to the Governor's proposed funding levels to set their own priorities.

There have been discussions in recent years of utilizing the growing market for "green" products and services as an opportunity to provide jobs to underserved and special needs populations. There could be an opportunity here to serve the same populations, but also help the state meet the growing need for green services.

**ISSUE 5: BUDGET BALANCING REDUCTION – UNEMPLOYMENT
INSURANCE APPEALS BOARD**

The Governor's Budget proposes a reduction of \$56,000 affecting the Board's ability to resolve liability regarding Personal Income Tax withholdings.

COMMENTS

While the Board testified during Special Session that this reduction would have relatively little impact on their ability to provide services, the Committee may wish to use this as an opportunity to look at the broader unemployment issues that exist, in the state specifically in regards to services provided by EDD.

Unemployment in the state has been rising, but the number of Employment Program Representatives working for the state has decreased. This creates workload issues at a time when economic hardship is likely to increase the need for such services. In just the past several months issues have been raised regarding California not meeting Federal requirements for response time to unemployment appeals, as well as issues with keeping up with demand for their toll-free help line for unemployment benefit recipients.

The Committee may wish to ask the Department for some information on the workload for their various departments that interact with unemployed individuals, the status of people being able to get help via their toll-free number, and if there is any backlog in claims?

ITEM 7100 EMPLOYMENT TRAINING PANEL

The Employment Training Panel (ETP) is housed within EDD, and is an ongoing statewide economic development program that supports the California economy by ensuring that employers, primarily small businesses, have the trained workers they need to compete in the global economy while providing workers with reasonable wages and secure employment. The ETP is a significant economic development tool for business attraction and business retention and works in partnership with business, labor, and government. The ETP, in conjunction with state and local partners, prioritizes special economic development initiatives with the objective of retaining and creating high-skilled, high-paying jobs throughout the state.

ISSUE 1: EMPLOYMENT TRAINING TAX

ETP is a joint business-labor training program that funds training to ensure employers have the skilled workers they need to compete globally. They target funds to high unemployment areas, focusing on the working poor, supports veterans, seasonal workers, and has a Welfare to Work Pilot program.

ETP is funded exclusively by the Employment Training Tax, which California companies pay to promote development of an improved State workforce. This year's proposed budget includes \$56.9 million for ETP. The Employment Training Tax is projected to produce just over \$100 million for the BY, but funding is also provided to the Department of Social Services (DSS) to provide work training for its participants. The percentage of funds sent to DSS varies each year, but has averaged around 37% over the last 10 years. This year's proposal provides DSS with \$35 million, representing 35%.

COMMENTS

There is a possibility that these funds could be utilized to assist with training individuals for the rising green jobs market. There is a strong interest in this subject in the legislature, and ETP has shown initiative in engaging the market. They are currently working in various green initiatives, and include "cleantech" as a priority market in their strategic plan. The Committee may wish to continue discussions with ETP to determine further ways they can work to support green jobs.

ITEM 7120 CALIFORNIA WORKFORCE INVESTMENT BOARD

The California Workforce Investment Board assists the Governor in overseeing and continuously improving the state workforce system, with an emphasis on California's economic vitality and growth. The workforce system is comprised of state and local programs and services that prepare current and future workers to meet the ever-evolving demands of California's critical businesses and industries. These services include matching job seekers with career opportunities and jobs; supplying high-skill workers to business and industry; providing labor market and economic information necessary for state, local, and regional planning; preparing the neediest youth for advanced learning and careers; and encouraging the inclusion of special populations as critical elements of the workforce.

The Governor's Budget proposes \$4.4 million (No General Fund) and 18.9 positions, a slight decrease from current year funding.

ISSUE 1: INCREASED BUDGET AUTHORITY

The California Workforce Investment Board (CWIB) requests an increase of \$100,000 (federal funds) to perform specific and required workforce development activities per Chapter 630, Statutes of 2006 (SB 293, Ducheny). SB 293's primary mandate for the CWIB is the development of a state strategic workforce development plan that will provide a framework for developing strategies for public policy, fiscal investment, operations for all state labor exchange, workforce education, and training programs.

COMMENTS

The development of this strategic workforce development plan provides a prime opportunity for CWIB to ensure that California's workforce is at the forefront of green job training just as California is leading the nation in renewable energy and other green business fields.

The Committee may wish to continue discussions with CWIB regarding the role they can play in providing green job training for California's workforce.

ITEM 7300 AGRICULTURE LABOR RELATIONS BOARD

The Agricultural Labor Relations Board (ALRB) is responsible for: (1) conducting secret ballot elections so that farm workers in California may decide whether to have a union represent them in collective bargaining with their employer, and (2) investigating, prosecuting and adjudicating unfair labor practice disputes.

The Governor's Budget proposes \$5.1 million (General Fund), similar funding to the current year.

ISSUE 1: BUDGET BALANCING REDUCTION

The Governor's Budget proposes a reduction of \$515,000 (General Fund) through elimination of one Hearing Officer and three General Counsel positions.

COMMENTS

The ALRB would only have one part time Judge if this proposal is adopted. With seven complaints pending hearing, and six more potentially requiring a hearing, one part time Judge will not be able to hear the cases in a timely manner. Further, there is no back-up Judge if the Judge can't hear the case due to illness or recusal.

The General Counsel positions are very important for the investigation of unfair labor practices. At a time when there has been a 25% increase in the number of unfair labor practice charges filed in the past two years, this may not be a prudent cut to make.

Further, when elections are required to be conducted, the small size of the Board requires entire regional offices to close down to staff the election. Further reductions may affect the Board's ability to effectively run elections as well.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor's budget proposes \$393 million (\$69.1 million General Fund) and 2,736.0 positions, an increase of \$8 million (including a General Fund decrease of \$200,000).

ISSUE 1: BUDGET BALANCING REDUCTION – MEDIATION/CONCILIATION

The Governor proposes a 10-percent GF reduction of \$221,000 and 2.0 positions to the State Mediation and Conciliation Service (SMCS) which was established to improve employer-union relations by mediating labor disputes free of charge.

According to the DIR, a decrease in the number of mediators would result in an increase in the number and duration of public sector strikes in the state. For example, in the last year alone the SMCS has been involved in helping to avert strikes in transit (San Bernardino and Contra Costa bus companies) and schools (San Francisco and others), and has helped broker deals to end strikes (for example, Hayward schools, Mendocino county deputy District Attorneys, and Hartnell College faculty). Fewer mediators spread out over the same number of disputes could result in more unresolved disputes and ultimately result in more or longer work stoppages.

COMMENTS

The actual impact of this cut cannot accurately be predicted. The effect of losing 2 of 13 mediators will depend on the number of cases requiring mediation and the nature of those cases. In light of more certain cuts being made in other areas of the budget, the committee may wish to approve this reduction.

ISSUE 2: BUDGET BALANCING REDUCTION – DIVISION OF OCCUPATIONAL SAFETY AND HEALTH

The Governor proposes a 10-percent GF reduction of 2.0 positions and \$222,000 to the EDD's Division of Occupational Safety and Health (DOSH) through the elimination of one Hearing Officer position whose responsibility it is to handle appeals from private and public-sector employers regarding citations issued by the DOSH for alleged violation of workplace safety and health laws. Further the proposal eliminates 1 Staff Services Manager position at the Occupational Safety and Health Standards Board (OSHSB), whose responsibility it is to ensure a safe and healthful workplace for California workers.

The DIR indicates the reduction to the OSHAB would result in over 1,000 fewer appeals heard by the board (there are currently 3,000 cases backlogged) and would increase the potential of federal complaint filing due to failure to process cases in a timely manner.

COMMENTS

The LAO notes that each appeal represents an alleged violation and could delay those funds making their way to the General fund.

ISSUE 3: OSHA PROGRAM FUND SHIFT

This proposal establishes (through TBL) a new Occupational Safety and Health Fund (OSHF) to be supported by a new assessment on Workers' Compensation premiums. The initial assessment for FY 2008-09 would be \$18.9 million, and would (1) create \$9.6 million in savings to the Targeted Inspection & Consultation Fund (TICF) by shifting expenses to the newly created OSHF; (2) provide funding of \$3.9 million to fund current Cal/OSHA shortages; and (3) provide approximately \$5.4 million for an initial fund balance and support negotiated salary increases for public safety staff.

Among the special funds supporting Cal/OSHA, existing labor code provides for the establishment and maintenance of four separate funds that are repositories for assessments made on employers' workers' compensation premiums. These funds, including the TICF, support various DIR activities related to workers' compensation and occupational safety and health. This proposal would add a fifth assessment that would also support mandated activities of the Cal/OSHA program.

According to the DIR, the TICF has served since the mid-1990s as the Cal/OSHA program's only cushion against swings in funding from the GF and inflationary costs. Since approximately 2002, when a statewide fiscal crisis triggered GF reductions in Cal/OSHA, the TICF has been relied upon to meet mission critical requirements and the program has gradually exhausted a surplus that existed previously in the fund. Last year the DIR submitted a request in the May Revise for a \$13 million loan to the TICF from the Workers' Compensation Administration Revolving Fund so that program services would not have to be reduced (see next issue for repayment of this loan).

Because the TICF can no longer help fund the OSHA services, the Governor's Budget makes this proposed solution. The new proposed fund would: (1) replace the TICF in

support of the Cal/OSHA program (approximately \$9.6 million annually); (2) offset current and/or anticipated funding shortfalls (approximately \$3.9 million annually, primarily related to past General Salary Increases) that have not been covered by flat federal funding over the past several years; (3) fund the estimated cost of a FY 2008-09 General Salary Increase (approximately \$1.5 million); and (4) provide an initial fund balance of approximately \$3.8 million (as a reserve for economic uncertainties).

COMMENTS

The Department estimates new assessment would result in an approximate 10-percent increase to the total average annual assessment for employers. The FY 2006-07 assessment was \$7.01 per \$1,000 of premium, and this proposal would increase that amount by \$0.69 to \$7.70 per \$1,000 of premium.

The Committee may wish to ask why funding for General Salary increases are included in this budget rather than Item 9800.

The services that are provided by OSHA are important to worker safety, but the committee may wish to direct staff to further analyze the appropriateness of the structure of this proposal to provide for those services.

**ISSUE 4: TARGETED INSPECTION & CONSULTATION FUND LOAN
REPAYMENT**

This proposal requests authorization to revise the Targeted Inspection and Consultation Fund (TICF) fee structure to increase revenue by approximately \$3.9 million annually. The increased revenue would be used to repay a \$13 million loan from the WCARF over a six-year period (mentioned in the OSHA issue above).

This proposal would increase assessments on employers' workers' compensation premiums to pay back the aforementioned loans taken out in FY 2007-08.

These additional funds would be raised by increasing the maximum assessment for employers. The Current maximum assessment is \$2,500 for any employer with a payroll over \$3.5 million. This proposal will increase the maximum to \$10,000 for employers with payrolls of more than \$20 million with graduated steps leading up to that amount. The proposal essentially adds 6 new payroll brackets above the former highest bracket of "\$3.5 million and above" and increased the maximum assessment on each of those steps beyond the former maximum of \$2,500.

COMMENTS

This proposal appears to have a rationale to it adjusting for employer payroll levels significantly larger than when the original assessment structure was created. The Committee may, however, wish to continue to review this proposal along side the previous OSHA issue.

ISSUE 5: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION

This proposal for \$3.5 million (Special Fund) and continuation of 29 limited-term positions is linked with requests for funding in the Employment Development Department, State Contractors License Board, and the Labor and Workforce Development Agency.

The Economic and Employment Enforcement Coalition (EEEC) is a joint agency education and enforcement effort. It was established in 2005-2006 as a joint effort by State and Federal agencies to combat the "underground economy". The EEEC conducts multi-agency sweeps, primarily focused on industries known to have high involvement in the underground economy, including: agriculture, construction, car wash, garment, janitorial, restaurant and racetracks.

DIR, unlike the other agencies involved, is more focused on worker conditions. The Division of Labor Standards Enforcement is responsible for enforcing minimum labor standards in order to ensure employees are not working under substandard and unlawful conditions. The Division of Occupational Safety and Health aims to ensure that workers have safe workplaces through workplace safety standards.

COMMENTS

While it is difficult to calculate the real effect of these efforts, it does appear that they are having at least some measure of success in both education and enforcement.

The Committee may wish to ask the Department if they have any performance measures specific to their role in the EEEC as opposed to the overall coalition. Information on workplace safety is difficult to quantify, but could be helpful in analysis of the proposal.

The Committee may wish to review this proposal along side the other proposals.

ISSUE 6: NETWORK AND EMPLOYMENT ENFORCEMENT COALITION

This proposal requests 3.0 positions and \$650,000 (various special funds) to: (1) provide project management and oversight for critical information systems projects; (2) comply with federal and state laws pertaining to protection of personal and confidential information; and (3) provide ongoing support to meet the growing information management and reporting needs of the department.

COMMENTS

DIR collects large amounts of personal data and in an environment of increased information and identity theft, ensuring proper protection of data is very important. A recent audit of the department's EAMS project (see item below) revealed numerous security issues that need to be addressed.

ISSUE 7: SAN FRANCISCO RELOCATION

This proposal requests \$432,000 (including \$130,000 GF) in FY 2008-09, \$3.6 million (including \$1.1 million GF) in FY 2009-10, and \$6.9 million (including \$2.1 million GF) ongoing to fund the relocation of the DIR headquarters office and two District Offices to allow for the expansion of the Administrative Office of the Courts (AOC) and the Department of Justice (DOJ) within the Hiram Johnson State Building located in San Francisco.

LAO

The Governor's budget states that the relocation of DIR is necessary for two main reasons—to accommodate the needs of DOJ and AOC and to provide more space for DIR. However, to date, DOJ and AOC have not provided any plan or justification for this expansion. Because all three state agencies share space within the HJSB, it is premature for one department to begin planning for relocation before the other departments have provided a plan that justifies their need for additional space. Moreover, the budget balancing reductions proposed for all three departments, if adopted, could change staffing levels and result in a less urgent need for new space.

COMMENTS

In the current budget situation, this move seems extremely costly while alternatives have not been adequately reviewed. Prior to future requests for relocation, the Department should review which aspects of their operation truly need to be located in San Francisco, and which could be relocated without negative effect on their constituency.

ISSUE 8: WORKERS' COMPENSATION INSURANCE COVERAGE PROGRAM

The Governor's budget proposes \$143,000 for one position for the workers' compensation insurance coverage program to systematically identify unlawfully uninsured employers. This position is expected to offset its costs by penalties assessed as the program is implemented.

COMMENTS

This proposal is to implement SB 869 from 2007. The appropriations analysis for that bill stated that costs should be less than \$30,000 in 07-08 and revenue positive in out years. The Committee may wish to inquire if these costs are indeed being recovered by the position.

ISSUE 9: AMUSEMENT RIDE

This proposal requests 2.6 positions and \$311,000 (Elevator Safety Account) to implement the new provisions of Chapter 478, Statutes of 2007 (SB 783) which expanded the types of accidents that owners and operators of non-permanent or portable amusement rides must report to the Division of Occupational Safety and Health (DOSH), and required the DOSH to enforce the statutory and regulatory provisions pertaining to portable amusement rides by issuance of citations and civil penalties. The DIR indicates 2.0 positions would work to implement the new provisions, while 0.6 positions would be under the Occupational Safety and Health Appeals Board to manage the estimated increase in the number of appeal cases.

COMMENTS

This request reflects the estimated costs presented to the Legislature last year, and is completely funded from special funds. However, the available reserves for the Elevator Safety Account have decreased significantly and will nearly be exhausted at the end of the budget year. The Committee may wish to ask if the Department has a plan to address this issue.

ISSUE 10: ELECTRONIC ADJUDICATION MANAGEMENT SYSTEM (EAMS)

The Electronic Adjudication Management System (EAMS) is a computer-based, workers' compensation case management project currently under development by the DIR and intended to convert the Workers' Compensation Appeals Board (WCAB) to paperless processes. The stated goal of the EAMS project is to eliminate redundancy, create efficiency, and make the workers' compensation case management system more accessible to users while preserving confidentiality.

The approved FSR for this project projected costs of \$24 million spanning five years; however, subsequent delays required re-appropriation of approximately \$8.8 million in FY 2006-07 and an updated project report put the revised project cost at \$36 million (as of October 2006). According to the DIR, the 50-percent increase in project costs were the result of unforeseen delays that occurred in the contract solicitation process and a higher-than-expected project bid.

The EAMS development and build phase is currently scheduled to be completed by the summer of 2008, followed by a pilot test of the system at all Division of Workers' Compensation district offices before the EAMS goes "live" for all users (including injured workers, law firms, insurance carriers, and healthcare providers) sometime late in 2008.

The Committee Chair has sent a letter to DIR expressing concerns over roll out plans and how they will affect the availability of staff during the roll out and training for EAMS. Further, the letter expressed concerns about "funding implications associated with this automated system, in terms of the sufficiency of financial resources needed to implement EAMS and permit full access by all parties to the Workers' Compensation system." Specifically, there are concerns regarding the number of licenses that will be available to users of the system.

COMMENTS

Staff notes that the Assembly Insurance Committee is set to hold an informational hearing on April 9, 2008, entitled: "THE DIVISION OF WORKERS COMPENSATIONS ELECTRONIC ADJUDICATION MANAGEMENT SYSTEM (EAMS): IS THE SYSTEM READY AND DOES IT SERVE ITS USERS?"

The Committee may wish to await outcomes from the informational hearing prior to taking any action on this item.