

AGENDA ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Warren Furutani, Chair

WEDNESDAY, MARCH 24, 1:30 PM
STATE CAPITOL, ROOM 437

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CONSENT ITEMS**ITEM 0845 DEPARTMENT OF INSURANCE****ISSUE 1: TELECOMMUNICATIONS INFRASTRUCTURE REPLACEMENT PROJECT**

Request for \$429,000 and \$279,000 ongoing (special fund) to convert three limited-term positions to permanent in order to provide ongoing resource support and maintenance for the Departments Telecommunications Infrastructure Replacement Project.

ISSUE 2: MORTGAGE GUARANTY INSURERS

Request for \$106,000 in 2010-11 and \$101,000 in 2011-12 (special fund) for a limited-term position to support new statutorily required mortgage guaranty regulatory workload. (SB 291, Chapter 574, Statutes of 2009).

ISSUE 3: LIFE SETTLEMENTS

Request for \$405,000 in 2010-11 and \$298,000 ongoing (special fund) to fund three positions to support new statutory requirements to support life settlement insurance products (SB 98, Chapter 343, Statutes of 2009).

ITEM 0950 STATE TREASURER'S OFFICE**ISSUE 1: CASH MANAGEMENT DIVISION**

The Treasurer's office requests 1 position and \$103,000 (reimbursements) to handle the workload for the Bank Reconciliation Section. This position was established as a two year limited term. Workload has continued to increase since then, so this request would permanently establish the position.

ISSUE 2: FEDERAL CHARTER SCHOOL FACILITIES INCENTIVE GRANTS PROGRAM

The Treasurer's office requests federal expenditure authority to administer \$46.1 million in federal funds received through the Federal Charter School Facilities Incentive Grants Program. This program allows the Treasurer's office to use up to 5% of the award toward administrative costs. These funds will be administered over the next 5 years.

ISSUE 3: CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The Committee requests \$250,000 in federal expenditure authority to contract with CalHFA to complete the processing of \$1.1 billion in loans administered pursuant to the ARRA during the 09/10 fiscal year.

ITEM 1110/1111

DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 1: BUREAU FOR PRIVATE POSTSECONDARY EDUCATION

The Bureau requests \$8.7 million (special fund) and 71 positions to address program workload. The Bureau is just getting started as its role was approved in AB 48 last year, and didn't go into effect until January 1, 2010.

ISSUE 2: CONSOLIDATIONS AND ELIMINATIONS

This proposal implements the consolidations and eliminations approved in last years budget (AB 20 X4, Chapter 18, Statutes of 2009). The net result of these actions is a reduction of nearly 40 positions and \$5.2 million.

ISSUE 3: BUREAU OF SECURITY AND INVESTIGATIVE SERVICES

The Bureau requests \$69,000 (special fund) to fund updates for two database systems and establish one two-year limited-term position to handle increased workload.

ISSUE 4: ACCOUNTANCY – PEER REVIEW PROGRAM

The Board requests 2.0 positions to operate the new Peer Review Program, mandated by law. The proposal would be funded through redirected costs.

ISSUE 5: ACCOUNTANCY – PRACTICE PRIVILEGE

The Board requests 2.0 three-year limited-term positions to address additional licensing workload associated with approved legislation. This request will be funded through redirected program costs

ISSUE 6: SPEECH-LANGUAGE PATHOLOGY AND AUDIOLOGY AND HEARING AID DISPENSERS BOARDS

The Board requests authority to consolidate these two boards as required in AB 1535 (Chapter 209, Statutes of 2009) with a net impact of -1.0 positions and -\$2,000 in the budget year. (Yes, that is in whole numbers.)

ISSUE 7: MEDICAL BOARD OF CA – POLYSOMNOGRAPHIC TECHNOLOGISTS

The Board requests \$88,000 (special fund) and 2.0 positions (1 one-year limited-term, and 1 permanent) to address increased workload associated with approved legislation.

ISSUE 8: VETERINARY MEDICAL BOARD

The Board requests \$111,000 (special fund) and 1.0 positions to address increased workload associated with approved legislation.

ISSUE 9: CONSUMER AND COMMUNITY EMPOWERMENT DIVISION – CALL CENTER RESOURCES

This proposal would eliminate four positions and \$208,000 (special fund) to align staffing resources with actual needs.

ISSUE 10: BOARD OF BARBERING AND COSMETOLOGY

The Board requests \$303,000 (special fund) and 4.0 two-year limited-term positions in order to meet the statutory requirement to inspect new establishments within 90 days of being issued a license.

ISSUE 11: BOARD OF BEHAVIORAL SCIENCES – LICENSING POSITIONS

The Board requests a redirection of \$37,000 (special fund) and establishment of .5 PY's to audit and evaluate continuing education for licensees.

ISSUE 12: CONTRACTORS STATE LICENSE BOARD (CSLB) – EEEEC

The CSLB requests 11.0 current limited term positions be established permanently to continue the efforts of the Economic and Employment Enforcement Coalition (EEEC).

ISSUE 13: CONTRACTORS STATE LICENSE BOARD – PROGRAMMER POSITION

The Board requests .5 positions to allow redirected staff to return to their primary functions. Costs will be absorbed within the existing budget.

ISSUE 14: PHYSICAL THERAPY BOARD

The Board requests 2 positions and \$125,000 (special fund) to address additional workload of the continuing competency program.

ISSUE 15: MEDICAL BOARD OF CALIFORNIA – LICENSING APPLICATION PROCESSING

The Board requests 7.8 positions, and no funding, to review and process application. Costs for these positions will be covered through a redirection of program savings.

ISSUE 16: STATE BOARD OF OPTOMETRY

The Board requests .5 positions to address workload increases. This position will be funded out of the existing budget.

ISSUE 17: OSTEOPATHIC MEDICAL BOARD

The Board requests \$274,000 (special fund) and 4.0 two-year limited-term positions to address workload.

ISSUE 18: BOARD OF PROFESSIONAL ENGINEERS AND LAND SURVEYORS

The Board requests \$94,000 (special fund) and 1.0 position to address a backlog of citations for unlicensed activity.

ISSUE 19: BOARD OF PHARMACY – LICENSING SUPPORT STAFF

The Board requests \$94,000 (special fund) and a redirection of \$21,000 and 2.0 positions to allow the Board to respond to licensing requests and inquiries within the statutory timelines.

**ISSUE 20: BEHAVIORAL SCIENCES – LICENSED PROFESSIONAL CLINICAL
COUSELORS**

The Board requests \$1.4 million (special fund) and 6.0 positions, with approval for 12.0 positions beginning 2011-12 in order to establish and implement a new licensing program for Professional Clinical Counselors and interns, pursuant to SB 788 (Chapter 619, Statutes of 2009). Funding will be provided through the fees paid by those seeking to be licensed.

ITEM 2150 DEPARTMENT OF FINANCIAL INSTITUTIONS**ISSUE 1: MONEY TRANSMITTERS**

The Department requests \$1 million and 8.6 PY's to maintain enforcement and review activities over money transmitters. These positions were established on a limited term basis in the 2008-09 budget. Since then, the Department has seen a continued increase in the use of money transmitters, and an increase in the number of poorly rated licensees, necessitating additional monitoring and enforcement. This action would make these positions permanent.

ITEM 2180 DEPARTMENT OF CORPORATIONS**ISSUE 1: IT WORKLOAD**

The Department requests two positions and \$300,000 to address the increase in workload resulting from 82 new positions over the past 6 years, during which time the IT staff has remained the same.

VOTE-ONLY ITEMS**ITEM 1110/1111 DEPARTMENT OF CONSUMER AFFAIRS****ISSUE 1: OCCUPATIONAL THERAPY BOARD – ENFORCEMENT MANAGER POSITION**

The Board requests \$109,000 (Special Fund) and 1.0 position for an Enforcement Manager to supervise the enforcement unit.

The Board's primary responsibility is to protect consumers from negligent, incompetent, or fraudulent licensees and individuals in the practice of occupational therapy. The growth of the licensee population (50% increase since 2000) has left much of the supervisory work to the Executive Officer (EO). The EO is supposed to be responsible for administration, supervision, and overall management of the Board. Because the Board has never had a supervisor position, the EO is left handling much of the day-to-day supervision including HR responsibilities, annual review, and requests for time off.

The Board has attempted to mitigate staffing needs with part time help, but has determined that this proposal would provide a more effective and efficient system of operation.

ISSUE 2: BOARD OF VOCATIONAL NURSING & PSYCHIATRIC TECHNICIANS

The Board requests \$258,000 (Special Fund) and 4.0 positions to address increased workload and backlogs in the Vocational Nursing program.

This program handles licensing, evaluation and examination of health care workers and nurses as well as accreditation of programs that provide training to those workers. Since 2003-04, there has been a 74% increase in the number of programs providing services, and 108% increase in the number of students in these programs. This has significantly increased the workload for the Board. Despite the approval of 4.0 positions in 2006/07, the workload continues to grow. As of July 23, 2009, their backlog was over 6 weeks for licensing of programs.

These programs help get nurses into hospitals. Over the past several years, the state has made a concerted effort to increase the number of nursing students to fill a shortfall in nurses statewide. These backlogs impede the state's effort to address the nursing shortage.

This proposal, combined with the two proposals to be heard under the Department of Consumer Affairs below, will likely result in the need for a fee increase on those registered by this Board beginning in 2011/12. The Board, however, will likely need to impose a fee increase regardless of this request, based on the two items being heard today under the Departments budget.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: PRESERVATION OF HCD'S AFFORDABLE HOUSING PORTFOLIO

The Department requests \$315,000 (special fund) and the conversion of three limited-term positions to permanent positions to convert and restructure rental housing loans in order to keep them in HCD's affordable housing portfolio.

These positions were approved in 2008-09 and will expire without approval of this request. The positions allow the Department to ensure that existing housing stock that is restricted for low income residents, does not lapse and become market rate housing, essentially removing all those units from the pool of available affordable housing. There is a shortage of affordable housing in the current market, and allowing these existing units to become market rate only exacerbates that problem. This is one of the cheapest and most effective ways to maintain affordable housing units.

ITEM 2310 OFFICE OF REAL ESTATE APPRAISERS (OREA)

ISSUE 1: REGULATION OF APPRAISAL MANAGEMENT COMPANIES

The Department requests \$205,000 (special fund) for one appraiser/investigator and \$60,000 in temporary help to comply with the requirements of SB 237 (Chapter 173, Statutes of 2009).

SB 237 requires Appraisal Management Companies to register with OREA and follow the provisions of the Real Estate Appraisers Licensing and Certification Law. This requires OREA to adopt regulations governing the implementation of the registration process, and to establish the fees to be imposed for registration in an amount sufficient to cover the costs incurred to administer the registration process. All applicants will have to undergo a background check, and OREA will be responsible for investigating reports of violations of the Real Estate Appraisers Licensing and Certification Law. The intent of the bill was to prevent the improper influence of appraisers.

The costs imposed by this request will be covered by the fees imposed on new registrants.

ITEMS TO BE HEARD

ITEM 0845 DEPARTMENT OF INSURANCE

The Insurance Commissioner regulates the largest insurance market in the United States, and the fourth largest insurance market in the world, enforces the California Insurance Code, and oversees the Department of Insurance.

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

ISSUE 1: PAPERLESS WORKFLOW SYSTEM PROJECT

This Department has requested \$2,390,000 (special fund) and 2.0 limited-term positions to continue with the Paperless Workflow System Project.

Approved by the Chief Information Officer in 2007-08, this project is an enterprise wide document management system that is designed to result in a "paperless" workflow environment throughout the department. Funding was originally provided in the 2008-09 fiscal year, but for monitoring purposes, it was requested that the Department submit funding requests for each year of the project separately.

Significant delays have occurred, putting the project one year behind schedule. Delays were caused in part by an inability of DGS to provide a Master Service Agreement (MSA). This led to the Department's use of a competitive bidding process, which yielded no bids, requiring them to return to DGS at which point they were able to utilize an MSA.

Due to effective project management, however, these delays have not resulted in an overall increase in the cost of the project. The funding approved for the current fiscal year has largely gone unspent due to the delays. As such, this proposal will simply fund last years expected activities that were delayed.

COMMENTS

Despite the delays in the procurement process, this project is well under-way, on budget, and ready to move forward. The procurement process is now complete, and with approval of this funding, the Department can move forward with the second year of implementation.

This system will reduce costs and increase efficiency for both the Department and those in the industry who interact with them. The project is funded entirely from special funds.

ISSUE 2: AUTO FRAUD FUNDING

The Department of Insurance collects \$1.50 on each automobile insurance policy in California to fund efforts to fight automobile insurance fraud. These funds are distributed via statutorily required formulas between the Department, the California Highway Patrol, and the local District Attorney's. The funds are statutorily required to be used for specific purposes, and may not be used for anything else. The funds are broken up between two programs for the District Attorneys: 2/3 for general auto fraud; and, 1/3 for an "urban" program.

Over the last several years, the funding specified for the District Attorney's has built up a fund balance that hasn't been distributed. In 2008-09 the funding level was \$13 million and \$5.8 million respectively. In 2008-09 there was a significant and unexpected increase in revenue, leaving a significant cash balance at the end of the year. As such, in the 2009-10 budget the Legislature provided one time and ongoing increased funding to spend down those balances, bringing the funding levels to \$22 million and \$10 million. The Governor, however, vetoed some of this funding as part of his blanket veto. This reduced the funding levels to \$17 million and \$8 million.

This year, the Governor's budget includes less funding than was provided in 2008-09 (\$11 million and \$4.5 million), and is projected to leave a cash balance at the end of the year of \$6 million and \$3 million.

COMMENTS

Despite the irrationality of vetoing local assistance funding, it turns out that had the governor not vetoed a portion of the funding last year, there would likely have been a deficit in the fund because revenues came in under projections for the year.

The Committee may wish to consider the benefits of putting this funding to use in combating auto insurance fraud, while balancing that against ensuring that sufficient funds will be collected throughout the year to cover those costs. Once funds are distributed, it will be tough for the Department to make up for any shortfall in funding.

ITEM 0890 SECRETARY OF STATE

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

ISSUE 1: HELP AMERICA VOTE ACT – SPENDING PLAN UPDATE AND VOTECAL BCP

The Secretary of State requests \$4.2 million (federal funds) to continue implementation of the Help America Vote Act (HAVA). This years funding is for assistance for individuals with disabilities, voting systems testing/certification, voter education and outreach, and administration.

Funding was originally received in 2003, and a spending plan was required by the Legislature in 2004, and approved on April 14th, 2005. The SOS revises that spending plan periodically to accurately reflect actual spending, and propose changes for future spending based on new funding and changes in expenditures.

In addition, HAVA requires every state to have a uniform, centralized, interactive, computerized voter registration database at the state level. This system must coordinate electronically with systems similar to the one used by the Department of Motor Vehicles, Department of Health Services, and the Department of Corrections and Rehabilitation for identification and list maintenance purposes. The system must also provide a functional interface for counties.

California has currently reached an interim solution to satisfy the requirements of HAVA, but must achieve a long-term solution per an agreement with the US Department of Justice. VoteCal is that solution.

The Secretary of State has requested \$23 million, based on their approved special projects report (August 21, 2009) to implement the development of VoteCal.

COMMENTS

This years funding request is in line with previous updates of the spending plan and continues to appropriately administer the HAVA required programs and VoteCal.

Current cost estimates for completion of the VoteCal database are at \$51 million, over \$14 million below prior estimates. There is enough HAVA funding to fund the entire project, and cover at least the first few years of operation costs. It is difficult to determine when HAVA funding will run out, and over the past 3 years, California has been granted an additional \$30 million that will be available upon submission of our revised implementation plan (currently being drafted).

ISSUE 2: NOVEMBER BALLOT FUNDING

The Secretary of State requests an additional \$715,000 for printing and mailing of Voter Information Guides. The water bond (Safe, Clean, and Reliable Drinking Water Supply Act of 2010) is required to be placed on the November ballot this year, and it will require the Secretary to include approximately 11 additional pages to explain the bond proposal. The actual size of the Voter Information Guide will not be known until 85 days prior to the election, so the Secretary of State's office uses previous years as a guide to estimate the size and cost of printing and mailing the Guides. The average guide is 160 pages, and this year's guide was estimated to be 96-176 pages at the time the Secretary of State submitted their budget request. With the additional 11 pages, they are concerned that this estimate will now be insufficient to cover all printing and mailing costs.

COMMENTS

While it is possible that the final printing costs will be below current estimates, the Secretary of State is required to have an adequate number of Guides printed, and would have to submit a deficiency request if full funding is not provided. If not all funds are needed to print the Guides, the funds cannot be used for any other purpose and will revert back to the General Fund.

ISSUE 3: COUNTY REIMBURSEMENT FOR MAY 19, 2009 SPECIAL ELECTION

The Governor's budget includes just over \$68 million to reimburse Counties for their election costs incurred to hold the May 19, 2009 Special Election. The Counties requested these reimbursement funds last year, but given the current fiscal climate, that state was unable to provide them. The Governor has included the funding necessary for full reimbursement to the counties for costs incurred.

COMMENTS

The state has historically reimbursed the counties for election costs related to statewide mandated elections and special elections.

ITEM 1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

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

ISSUE 1: CONSUMER PROTECTION ENFORCEMENT INITIATIVE (CPEI)

The Department requests \$12.8 million (special fund) and 107 positions in the budget year, and \$14.2 million and 138.5 positions on-going to implement the Department of Consumer Affairs (Department) proposed Consumer Protection Enforcement Initiative (CPEI). The positions will be hired in phases based on when the positions are needed. Most of the positions will be working directly within the Boards in their existing enforcement units. A small portion of the staff will work directly for the Department on coordination and monitoring tasks.

This proposal provides staff to the "Healing Arts Boards" as well as the Department to address the issues that have arisen around consumer protection over the past few years. The Department states that the CPEI will streamline and standardize the complaint intake/analysis, reorganize investigative resources, and decrease the average processing time for complaint intake, investigation, and prosecution from three years to 12-18 months by 2012-13.

Beginning in 2008, there were various reports, in the media and elsewhere, identifying individuals who should have been identified through various Board's enforcement and compliance efforts, but were not. In multiple cases, individuals with convictions and incarcerations for serious criminal acts were able to renew their license, being classified as "in good standing" and practice without any restrictions.

In response to these continued reports and issues, the Governor directed the Department to coordinate an enforcement effort rather than leave it up to individual boards as had been done in the past.

This centralized coordination includes the creation of a Deputy Director of Enforcement and Compliance. This position will be in charge of compliance audits of each of the Board's individual enforcement programs. The Deputy Director would be responsible for submitting an annual enforcement overview report on progress in improving the system beginning Sept. 1, 2012. The proposal also develops a new applicant and case management system for the Department as a whole. This will enable better oversight over the Board's efforts to meet the Governor's 12-18 month processing time goal.

The Department analyzed 2008-09 data to determine the status of backlogs, as well as the resources it would take to begin reducing those backlogs. In order to accurately staff this effort in the future, this request includes 19 two-year limited-term positions to process complaint intake and analyze the staff needs moving forward after this initial effort is implemented.

In addition to adding positions, the Department is working to make the processes used more efficient. They have implemented "Complaint Prioritization Guidelines" to classify all requests as "urgent," "high priority," and "routine." This is meant to avoid cases like those reported in recent years where a serious issue is held up while less critical issues are handled.

The Department will also begin using a "Balanced Scorecard" as a performance measure framework. This framework will focus on employee training, customer service, internal measurement of success, and financial measures. To assist in training, the Department would create an Enforcement Academy to provide a comprehensive training forum to all healing arts board staff. The Department will begin collecting data in July to help it measure the following items:

- 1) the backlog of complaints awaiting investigation;
- 2) the time required to conduct complaint intake and analysis;
- 3) the time associated with the prosecution and hearing process; and,
- 4) the overall processing timeframe toward the 12-18 month goal.

Healing Arts Boards consist of:

Acupuncture
Behavioral Sciences
Dental
Dental Assistants Program
Dental Hygiene Committee
Hearing Aid Dispensers
Medical
Occupational Therapy
Optometry
Osteopathic Medical Board
Pharmacy
Physical Therapy Board
Physician Assistant Committee
Podiatric Medicine
Psychology
Nursing
Registered Nursing
Respiratory Care
Veterinary Medicine
Vocational Nursing and Psychiatric Technicians

COMMENTS

This request does not include General Fund, but will be paid for by the benefiting Boards proportionally based on size and needs. This proposal, combined with the next item on the agenda, may require one or two Board's to implement fee increases to cover the additional cost for increased enforcement. These boards will, however, be receiving a benefit for those expenditures, and none have come forward to express any concerns with the proposals. Enforcement and compliance are the most important functions of the Healing Arts Boards, and this proposal will enable them to better fulfill those duties.

Additional costs will likely be incurred for Attorney General and Office of Administrative Hearings services. With increased enforcement, increased prosecution/filings will most likely come through. The Administration has proposed budget bill language to handle these unknown costs by allowing DOF to adjust these line-items by up to 20%, after which time any adjustments would require 30 day notification to the Legislature.

ISSUE 2: BREEZE

This proposal would implement an integrated licensing and enforcement system to support the efforts outlined above in the Consumer Protection Enforcement Initiative (CPEI). The Budget Year cost of the program would be covered by redirecting the funding for the long delayed iLicensing project, \$2.08 million. In the out years, the cost would be:

\$2.3 million in 2011-12

\$3.6 million in 2012-13

\$6.2 million in 2013-14

\$6.1 million in 2014-15 and ongoing for maintenance and support

As with the CPEI, these costs would be covered by fees collected by those entities to be supported by the proposed system. This system, however, would support all Boards/Bureaus, not just the Healing Arts Boards. The system also has an alternative contract payment method in place. The solution vendor for the system will be paid through a "fee-per-transaction" model. This means the state does not have to put up any funding until the system is in use. Instead, the vendor will be compensated by assessing system clients with a transaction fee, anticipated at \$3 per transaction, to boards/bureaus for each application or renewal processed through the new system. These costs are included in the estimates above.

The costs incurred prior to the acceptance and use of the new system are to purchase and implement commercially available integrated enterprise enforcement case management and licensing solutions that will then be configured for DCA's specific needs. This will replace both of the Department's legacy enforcement and licensing systems. The licensing portion of the system, replacing the long delayed iLicensing project, will vastly increase the online self-service offerings available from the Department.

By having an integrated system for all of the Department, it will, for the first time, enable cross-license checking between boards and bureaus. Additionally, it will enable the Department to interface with compatible external systems when data sharing agreements are in place.

The Department anticipates procuring and implementing Phase 1 of a comprehensive system by 2012-13, based on their ability to take advantage of other state's knowledge and experience with these solutions and use of an accelerated procurement plan. Phase 1 will consist of all the Healing Arts Boards, as discussed in the prior agenda item. The remaining boards and bureaus will be added in the following 2 years.

COMMENTS

The Department requests Budget Bill Language as part of this request to allow DOF to "augment the amount available for expenditure to pay BreEZe project costs." This augmentation would require 30 day notification to the Joint Legislative Budget Committee prior to implementation. This language is fairly common for a project such as this that requires approval in the budget act prior to actual procurement of the project. This language provides sufficient legislative oversight, while allowing the project to move forward without unnecessary delay.

The project has received conditional approval from the Office of the Chief Information Officer. That approval lists ongoing costs of nearly \$10 million, while this BCP only requests ongoing funding of \$6.1 million. The Committee may wish to ask why there is such a significant difference.

This system upgrade is in line with modifications being made around the state, and nation, to move away from legacy systems that are outdated and no longer have technical support from the original vendor. This system will provide efficiency within the department, convenience to the consumers, and facilitate the increased enforcement activities proposed in the CPEI.

As with the CPEI request, this request does not include General Fund, but will be paid for by the benefiting Boards proportionally based on size and needs. This proposal, combined with the previous item on the agenda, will require a few Board's to implement fee increases to cover the additional cost for increased enforcement. The Department estimates that 6 of the 19 boards may require a fee increase in 2011-12 (Budget year +1) to compensate for these costs. These boards will, however, be receiving a benefit for those expenditures, and none have come forward to express any concerns with the proposals. Enforcement and compliance are the most important functions of the Healing Arts Boards, and this proposal will enable them to better fulfill those duties.

ITEM 2180 DEPARTMENT OF CORPORATIONS

The Department of Corporations, California's investment and financing authority, under the direction of the California Corporations Commissioner, licenses and regulates a variety of businesses including securities brokers and dealers, investment advisers and financial planners, and certain fiduciaries and lenders. The Department also regulates the offer and sale of securities, franchises, and off-exchange commodities.

ISSUE 1: FEDERAL SECURE AND FAIR ENFORCEMENT LICENSING ACT OF 2008 (SAFE)

The Department requests \$1.3 million (special fund) and 8.0 positions in order to implement and enforce the provisions of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE). This requires "mortgage loan originators" employed by licensees of the Department to meet uniform nationwide standards and be licensed through the Nationwide Mortgage Licensing System by June 30, 2010.

In order to meet that deadline, the Department has redirected positions to handle the current workload necessary to do so. This request for positions and funds will enable them to meet the workload associated with the ongoing licensing of new mortgage loan originators and annual renewal of licenses.

Annual review of licenses is required under the SAFE act, which requires completion of continuing education requirements, FBI clearance, and a credit report review. California additionally requires the Department to search the Delinquent Parents List for matches and to confirm the originator is employed by a licensed lender in good standing with the Department.

COMMENTS

The Department is required to license all mortgage loan originators by July 31, 2010. As such, they are currently redirecting approximately 15-20 full time staff to process all applications to ensure that time-line is met. This proposal will allow those staff to be directed back to their regular workload.

This proposal will be funded by fees. The cost of the initial application is expected to be \$100. The fees for renewals and amendments to the license have not yet been set. The Department has stated it would like to wait to see what their actual workload is to ensure they accurately set the fee level to cover their costs.

ITEM 2320 DEPARTMENT OF REAL ESTATE

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

ISSUE 1: MORTGAGE LOAN ORIGINATOR LICENSURE (SAFE ACT)

The Department is requesting \$2.7 million (special fund) and 27 positions for the budget year, proposed to increase to 120 positions there-after, to implement the SAFE Act.

The SAFE Act defines the term "mortgage loan originator" as someone who takes a residential mortgage loan application or offers or negotiates terms of a residential mortgage loan for compensation or gain. The individuals regulated under this act by the Department of Real Estate will be separate from those individuals regulated under the previous agenda item for the Department of Corporations.

Under the SAFE Act, all mortgage loan originators had to notify the Department of their plan to operate in California by Jan. 31, 2010, and by the end of 2010, they must obtain a real estate license endorsement from the Department. The Department estimates they will have to process nearly 40,000 endorsements by the end of 2010.

All mortgage loan originators will also have to be registered through the new National Mortgage Licensing System (NMLS). The Department will have to link with this new system, requiring some IT updates and IT staff to develop new tracking systems.

COMMENTS

This request includes \$176,000 in facility costs, because the current Department office is already operating at full capacity. Some of the new staff is proposed to be housed by modifying break and conference rooms into office space, while others will be housed in some additional leased space. The Department is working with the Department of General Services to determine how to best handle the 27 new PY's. The Department proposes that they will need 120 new PY's (including the 27 proposed here-in) starting in 2011-12. If they maintain that request next year, new facility space will no doubt be necessary. The Committee had significant discussions last year regarding a request from the Department to change locations due to size as well as ADA and health safety issues (mold). The request was rejected due to uncertainty about the future departmental workload, as well as fund condition. The SAFE Act has provided a significant workload for at least the near future, and the funding provided from the new fees may serve to help stabilize the fund condition. In addition, the Department increased fees last year to begin addressing their funding shortfall. With so many changes taking place this year, and staffing uncertainties, it may serve the Committee well to re-analyze the situation next year and determine the best course of action in regards to facility space.

The costs of this proposal are proposed to be covered by an "endorsement fee" on all individuals required to have an endorsement to operate as a mortgage loan originator. The fee is estimated to be \$300 to fully recover the costs of administering this program.

The Department has been redirecting staff (approximately 18 full time positions) to implement the initial phases and to process the submission of "intent" to perform loan origination activities. Thus far, the Departments estimates are in line with the response they are actually receiving. This redirection of staff, however, has already lengthened the time it takes to process a real estate license request by two weeks.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The mission of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The Department administers housing finance, economic development, and rehabilitation programs with an emphasis on meeting the shelter needs of low-income persons and families, as well as other special needs groups. It also administers and implements building codes, manages mobile home registration and titling, and enforces construction standards for mobile homes.

ISSUE 1: CLIMATE CHANGE AND RHNA-STATE HOUSING ELEMENT LAW ACTIVITIES TO IMPLEMENT AB 32

The Department requests \$54,000 in 2010-11 and \$103,000 ongoing (special fund) and 1 position to begin implementing its obligations under the AB 32 Climate Change Scoping Plan. This request would be funded out of the Air Pollution Control Fund.

AB 32 authorized the ARB to adopt a schedule of fees to be paid by sources of GHG emissions, to support the administrative costs of implementing the bill. This request fits the requirements set forth by the Board to determine what expenses would be paid from this new fund.

The scoping plan includes several programs that involve the Department, including:

- Integrating the regional housing needs allocation (RHNA) and housing element update processes with regional transportation plans;
- Update technical assistance and outreach efforts to include climate change considerations for housing element updates; and,
- Work with the Building Standards Commission to develop and tighten green building standards.

COMMENTS

The Board adopted the fee intended to fund this proposal on September 25, 2009, and they are currently in the rulemaking process to institute the fee. This position is not scheduled to be filled until January 1, 2011, leaving plenty of time for the fee to be instituted. In addition, if for some reason the fee is delayed, the Department would not be authorized to move forward with hiring without a funding source.

The Department has been absorbing costs for several years for efforts they make to coordinate with the Air Resources Board and other agencies on these issues. This fee is intended to fund positions for this very purpose, and should be used as such.

ISSUE 2: GREEN BUILDING STANDARDS – EDUCATION/OUTREACH

The Department requests \$108,000 (special fund) and 1 position to help provide educational and outreach programs for the implementation of the new California Green Building Code (effective January 2011).

This proposal would be funded out of the Building Standards Administration Special Revolving Fund (BSASRF) created by SB 1473 (chapter 719, Statutes of 2008). That bill required every city and county to collect a fee of \$4 per \$100,000 in valuation from every applicant for a building permit. This fee was specified for the purpose of funding the development of building standards, with emphasis on the development of educational efforts associated with building standards, including green building standards. These fees are anticipated to generate approximately \$1.2 million in revenues to the BSASRF in FY 2010-2011.

The California Building Standards Commission (BSC) is responsible for administering California's building codes, including adopting, approving, publishing, and implementing codes and standards. On January 12, 2010, the BSC adopted the new California Green Building Standards Code (Part 11 of Title 24). This request seeks funding to provide education and training regarding these new codes.

HCD states that "with the implementation of this proposal, HCD will design its educational campaign for the benefit of local officials, design professionals, industry and the affected public to ensure they are properly informed and trained in the Green Building Code implementation and enforcement provisions."

COMMENTS

Green building practices (also referred to as sustainable building practices) continue to grow in popularity and demand throughout the nation. California has chosen to move forward by implementing some of these practices in the building code, and the Legislature, in approving SB 1473 (chapter 719, Statutes of 2008) made it clear that educational efforts should be part of that process. This proposal meets the specifications of what the fee was intended to be used for.

ISSUE 3: PROPOSITION 1C

The Department requests the following:

(1) \$30 million (local assistance) funding authority for two programs established by the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C).

(a) \$5 million for Building Equity and Growth in Neighborhoods (BEGIN); and,

(b) \$25 million for Housing-Related Parks Program (HRP).

(2) An extension of budget authority and liquidation period authorized in Chapter 652, Statutes of 2007 (SB 586) for the Affordable Housing Innovation (AHI) programs.

In November 2006, California voters approved Proposition 1C, the \$2.85 billion Housing and Emergency Shelter Trust Fund Act of 2006. Proposition 1C and subsequent implementing legislation provided funding for several programs, including for the HRP program, which grants park acquisition and improvement funds to cities and counties as a reward for the start of each unit of affordable housing within their jurisdictions, and the BEGIN program, which provides grants to local governments for the provision of down payment assistance loans to low or moderate income homebuyers who purchase a home in a new development that has received one or more local government development incentives.

Also included within Prop 1C is the \$100 million AHI program fund for competitive grants or loans to sponsoring entities that develop, own, lend, or invest in affordable housing and are used to create pilot programs to demonstrate innovative, cost-saving approaches to building or preserving affordable housing. The Administration indicates that the encumbrance and liquidation period for AHI awards needs to be extended for two reasons: (1) In early 2008-09, with California's economy struggling at the start of the recession, HCD focused its resources on core/large housing programs, releasing large Notifications of Fund Availability into the economy to stimulate housing development activity; AHI awards were not included in this effort; and, (2) due to the December 18, 2008, freeze on bond funding, awards were not issued for the AHI programs.

The proposed current year Prop. 1C expenditures total \$540 million, including \$40 million for the BEGIN program, \$10 million for HRP, and \$83 million for the AHI Fund.

COMMENTS

Due to the December 2008 bond freeze and the state's ongoing cash flow problems, the availability of bond proceeds has been tightly constrained statewide. The state's ability (or inability) to access bond markets has created uncertainty for bond-funded programs and their constituents.

While staff does not raise any specific concerns with the allocation of new funds, or extension of authorization for AHI funds, the Committee may wish to inquire as to the effect of the bond market on the sale and use of Prop. 1C bond funds. Additionally, the Assembly Budget Committee earlier this year expressed an interest in ensuring that the state prioritizes bond sales to generate jobs, while not overly burdening our GF with future debt payments. It may be beneficial to withhold a decision on this request and review the total bond request in all areas of the Governor's budget.

ISSUE 4: ARRA POSITION AUTHORITY

Requests \$612,000 (federal funds) and six positions to administer the American Recovery and Reinvestment Act (ARRA) of 2009.

The 2009 Budget Act appropriated \$10.6 million to the Community Development Block Grant Recovery (CDBG-R) and \$44.5 million to the Homelessness Prevention and Rapid Re-Housing Program (HPRP). These funds must be spent as follows:

- CDBG-R must be spent within three years. Close-out activities, monitoring and reporting will continue into 2012-13; and,
- HPRP must be obligated by Sept. 30, 2009, 60% expended in 2010-11, and the remaining funds spent within three years (2012-13). Contracts will expire on September 30, 2012. Close-out activities, monitoring and reporting will continue into 2012-13.

In the current year the Department has handled staffing needs to implement these two programs by redirecting 7 vacant positions. ARRA provides for administrative funding to administer the programs, as requested here.

COMMENTS

As discussed above, all responsibilities related to these two programs will be done by the end of the 2012-13 fiscal year. As such, staff asked the Department why these positions could not be limited to such a term. The Department points out that these positions may exist only to the extent that federal funds for this purpose remain. At the end of the term of the funds, the positions will inherently be eliminated. By not making them limited term positions, it eliminates the need to re-establish the positions in two years (as required under current law), and allows the positions to remain in place as long as the funding and workload exist.

ISSUE 5: GENERAL FUND TRANSFER – OFFICE OF MIGRANT SERVICES

The Department requests the transfer of \$965,000 from the Joe Serna, Jr. Farmworker Housing Grant Fund to the General Fund. These funds were initially allocated out of the General Fund to HCD in the 2006-07 Budget Act for the repair, rehabilitation and reconstruction of the daycare facility at the Hollister OMS center. It was determined that it was more appropriate to demolish rather than repair the out-of-date Hollister daycare center facility. This decision resulted in \$965,000 of the original appropriation remaining in the fund. Because it was originally allocated from the General Fund, it may be reverted back to the General Fund now that it will not be utilized for its intended purpose.

COMMENTS

Staff has no concerns with this proposal, but included it for discussion based on the Committee's previous interest in the Office of Migrant Services. Based on the current fiscal crisis, this proposal makes the most sense.

ISSUE 6: OPR ELIMINATION ADJUSTMENT

The Department requests \$130,000 GF and one position for the analysis of legislation impacting local governments. This transfer is associated with the elimination of the Office of Planning and Research (OPR) which is a separate budget item that will be heard in a future hearing.

The Governor's proposal contains no background information or documentation in support of this position transfer from OPR to HCD. HCD staff has indicated separately that the position would analyze how proposed bills impact local government. This analysis is not currently undertaken by HCD but would complement with work HCD already does to analyze how proposed bills impact redevelopment agencies, including their reporting requirements.

LAO Comment. The Governor's proposal to eliminate OPR would result in approximately \$700,000 GF savings. Much of OPR's budget and many of its positions, however, would be transferred to other entities in state government, including the transfer of this position to HCD. The LAO notes that it has long recommended eliminating OPR. However, it recommends the Legislature review, in detail, proposals where some OPR functions, particularly the California Environmental Quality Act Clearinghouse and California Volunteers, will be placed following the office's elimination. The LAO believes some additional GF savings may be possible and expects to provide more detailed recommendations in this regard in the future.

COMMENTS

It is difficult for the Subcommittee to consider this item in isolation, as it is part of a larger proposal to eliminate OPR. HCD is merely a bystander in the more important decision of which functions currently housed in OPR should be maintained. It may make sense for the committee to defer this decision to that larger discussion.

ISSUE 7: ENTERPRISE ZONE FUNDING

California currently has 42 authorized Enterprise Zones (EZ). The EZ programs are intended to target economically distressed areas throughout California, providing special incentives designed to encourage business investment and promote the creation of new jobs. Each Enterprise Zone is administered by its local jurisdiction working with local agencies and business groups to promote economic growth through business attraction, expansion, and retention. HCD coordinates the program statewide.

Enterprise Zone companies are eligible for tax credits and benefits including \$37,440 or more in state tax credits over a five-year period for each qualified employee hired.

The Governor's budget proposes to fund HCD's administration of the Enterprise Zone (EZ) Program with \$610,000 (fee revenues) and \$510,000 (GF). HCD state operations costs related to the EZ program include tax credit voucher application review and awards, monitoring, adoption of regulations, and data collection/reporting. To partially fund the state's costs for administering the program, statute authorizes HCD to charge a \$10 per hiring tax credit voucher application fee. Should the EZ program take in fee revenues above what is needed to administer the program, funds revert to the GF. This reversion occurred for the first time in 2008-09 when \$721,000 in fee revenue was budgeted and \$916,000 was received by the state.

The amount of fee revenue that will be collected can only be estimated at the beginning of each fiscal year, making it difficult to budget the correct amount of required GF support. The current structure does not allow the program to build a balance from fee revenues in order to even out the program's funding over time. Without a balance on-hand to support the months in which fee revenues are not enough to pay for administration of the program, the state must commit GF resources to the program each year.

LAO COMMENTS:

The LAO states that fee revenues, and not the GF, should pay for the administrative costs of the Enterprise Zone program. They recommend:

- (1) Increasing fees to fully cover the program's administrative costs; and,
- (2) Establishing a new fund to match revenues with the costs of the program's administration.

More specifically, they recommend the Legislature enact legislation to:

- (1) Increase the hiring tax credit fee to a level that would fund the state's full cost of administering the program. Based on conservative estimates, the current fee would have to be raised by \$4 to \$6 per application. This would mean that taxpayers would pay \$14 to \$16 dollars for a tax credit worth up to \$37,440; and,
- (2) Establish a new fund into which fee revenues would be deposited. This will enable the department to carry a balance from month to month and even out expenditures. It also allows the state to accurately match the program's costs with fee revenues by monitoring the fund balance over time. This will give the Legislature the ability to adjust fees in future years in relation to costs.

COMMENTS

Staff concurs with the LAO analysis that in current economic times, it does not make sense for the state General Fund to subsidize the Administration of a program that already drastically reduces state revenues.

The Committee may wish to ask the Department to prepare an estimate for what the fee would have to be increased by to cover the full cost of administering the program.

The Committee may also wish to ask the Department how quickly such a fee increase could be implemented, and when those increased funds would be realized.

In addition to this discussion about fee revenue, there is a larger discussion regarding the benefits of Enterprise Zones and whether they are an appropriate tax expenditure or not. That discussion would more appropriately take place under the umbrella of tax expenditures, as it is separate from the administrative function held by HCD. However, in those discussions questions have been raised about what enforcement and investigative efforts HCD or the Franchise Tax Board (FTB) undertake to ensure that entities and individuals receiving benefits from this program are entitled to such benefits.

The Committee may wish to request that the Department, in coordination with FTB, report back to staff on what enforcement efforts are currently undertaken, and what additional efforts could be undertaken with increased funding.

ISSUE 8: EMERGENCY HOUSING ASSISTANCE FUND SWEEP

The Emergency Housing Assistance Fund provides funding for the Emergency Housing Assistance Program (EHAP). EHAP, when funded, provided facility operating grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families. The Governor's budget includes a sweep of \$4.2 million from this fund to the General Fund.

BACKGROUND:

For the 2008-09 budget, the Governor proposed a budget balancing reduction of \$401,000 resulting in a 10 percent reduction of state contributions, estimated to be equivalent to 1,900 beds. The Legislature chose to restore that cut through the budget process. The Governor, however, vetoed the restored funding as well as vetoing the entire state contribution to emergency housing facilities (an additional \$3.6 million cut). The state, prior to 2008-09, provided approximately 10 percent of the overall funding for local homeless shelters. Based on the departments 1,900 bed estimate for the original \$401,000 reduction, it would suggest 19,000 beds would be eliminated by the Governor's \$4 million reduction.

Last year in this committee Housing California, an advocate for increasing the supply and variety of decent, safe, and affordable homes for homeless and low income families, discussed a survey they conducted showing a dramatic reduction in services at emergency shelters throughout the state:

- Conservative estimates show that more than 25,000 fewer people will be able to access emergency shelter services. These numbers include hundreds of families and thousands of children.
- 58 percent of recipients report the necessity to lay off staff, resulting in further job losses and increased demand for unemployment benefits.
- Rural areas are being particularly hard hit, as the EHAP grants received by rural counties generally account for larger portions of their emergency shelter budgets.
- Winter shelters are likely to be forced to close their doors early or not open at all.
- Nearly 20 percent of shelters will be forced to close a program and two shelters report they may have to close permanently.
- In attempts to fill operating-revenue gaps, emergency shelters are growing more dependent on less-reliable funding streams, such as private donations and local government funds (both of which are already tapped to the brink).

The Governor left the \$4 million out of his 2009-10 budget proposal, but the Assembly added it back in until it was then removed in conference committee. This Subcommittee had significant discussions for both the 2008-09 and 2009-10 budgets in regards to the importance of this program, and trying to find funding to keep it going.

When staff was made aware of the \$4.2 million in available funds that were going unused, the Department was asked to explain how funding was available in this fund while we were eliminating the program the past two years. They provided the following history for the fund:

- The Budget Act of 2000-01 transferred \$39 million from the General Fund to the EHAF. Of this amount \$14 million was for Shelter Operations and \$25 million was for Capital Development.
- All funds that were transferred in 2000-01 through 2007-08 were awarded except for the amount reserved for support costs, which, prior to January 1, 2009, were restricted to 4 percent of the total (this was revised to 5% in 2009).
- In 2002, Proposition 46 passed and provided bond funds for EHAP Capital Development, continuing the EHAP-CD program.
- From 2003 through 2005 as bond money for EHAP-CD was going out, disencumbrances from the GF EHAP-CD projects and Shelter Operation awards were occurring, creating a "General Fund" related balance in the fund.
- In 2002-03, the transfer from the General Fund to the EHAF for Shelter Operations dropped from \$14 million to \$5.3 million. In 2004-05, the transfer was reduced further to \$4 million, reducing the allowable support costs to just \$160,000 (4% of the \$4 million). These reductions drastically reduced the funding for support without a commensurate reduction in workload, because in the EHAP program a reduction in funds reduces the amount awarded but does not reduce the number of awards, which is the primary workload driver.
- With Propositions 46 and 1C addressing the demand for the EHAP-CD program and a regular \$4 million transfer coming in for Shelter Operations, the "General Fund" balance in the fund was maintained and provided sufficient interest revenue to address the decrease of support funds for the Shelter Operations program.
- In September 2008 the annual transfer for Shelter Operations was vetoed. Given the uncertainty about budget solutions or condition of the economy, the future of the program was not clear.
- In response to the cash crisis that was occurring in Fall 2008 and Spring 2009, HCD complied with the statewide restriction on spending (from any source) and did not award any of the amounts in fund balance.
- When it was clear that the state's fiscal situation would not improve sufficiently to resume the annual transfers for the Shelter Program in the near term a decision needed to be made regarding whether to spend the funds or return them to the General Fund. The Governor's Budget reflects the decision to return the funds to the General Fund and suspend the program.

COMMENTS

This Subcommittee made its intent very clear, in discussions and votes, that providing funding for this program was of critical importance. There were substantial discussions regarding attempts to find alternative funding sources other than the General Fund in order to maintain funding for this program, yet the Department never shared with the Committee or staff that funding was sitting unused and available in this account. The Department has contended that the Fund Balance Statement shows these funds, and thus the information was available. The Fund Balance, however, contains expenditures for other programs, and includes funds that are not part of the EHAP program. The Committee may wish to ask why the Department didn't feel

it necessary to share with the Legislature during discussions on this topic over the last two years that such funds were available.

Because these funds are available to be swept back to the General Fund, using them to reestablish the program would be the same as providing a General Fund allocation. Given the current fiscal crisis, that may not be feasible, but merits the discussion of the Subcommittee given the recent interest in this program.