AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

TUESDAY, MARCH 29, 1:30 PM
STATE CAPITOL, ROOM 447

CONSENT CALENDAR

ITEM	DESCRIPTION
1105	**California African-American Museum**
2100	**Department of Alcoholic Beverage Control**
2120	**Alcoholic Beverage Control Appeals Board**
2310	**Office of Real Estate Appraisers**
2320	**Department of Real Estate**
8500	**Board of Chiropractic Examiners**
8510	**Osteopathic Medical Board**
8820	**Commission on the Status of Women**
9612	**Enhanced Tobacco Settlement Asset-Backed Bonds – Golden State Tobacco**
9625	**Interest Payments to the Federal Government**

ITEMS TO BE HEARD

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ITEM 1100 CALIFORNIA SCIENCE CENTER

The California Science Center is an educational, scientific and technological center administered by a nine-member board of directors appointed by the Governor. It is located in Exposition Park, a 160-acre tract in south Los Angeles, which is owned by the State in the name of the Science Center. The Science Center is a place where children, teachers and families can explore how science is relevant to their everyday lives. Through hands-on experiences, children, teachers and families are introduced to scientific principles in the context of the world that surrounds them. It is an approach intended to stimulate curiosity and challenge visitors to think, to question, and to see their world in an entirely new way. The California African American Museum, also included in the park, provides the ability to augment visitors' learning experience through exhibitions and programs on the history, art, and culture of African Americans with an additional emphasis on California and the Western United States. In addition, the Office of the Park Manager is responsible for maintenance of the park, public safety and parking facilities.

The Governor's proposed 2005-06 budget provides $19.9 million ($14.5 million General Fund) for the California Science Center.

ISSUE 1: ENTRANCE FEE FEASABILITY REPORT

The 2004-05 budget directed the California Science Center to report to the Legislature on the feasibility of implementing an entrance fee to offset General fund costs. In their report, the Science Center looked at three different possible fee scenarios:

A. Nominal fee ($2), adult general admission. This fee level was considered based on its potential for minimizing attendance loss associated with general admission fee
B. Competitive fee ($9), adult general admission. $9 was chosen as a "competitive" fee based on fees at the Los Angeles County Museum of Natural History and the Chicago Museum of Science and Industry.
C. Top End fee ($12), adult general admission. This fee is comparable with the Exploratorium in San Francisco, which had the highest admission price of any science and technology center contacted.

In their report, the Science Center found that while all of the fee scenarios presented would generate gross revenue for the Science Center, there would be no net general fund revenue due to implementation costs and a projected 30-70 percent decline in attendance – which the science center points out, would also affect other attendance sensitive revenue streams such as concessions, parking, food services, etc

COMMENTS

The analysis provided by the Science Center was conducted using existing resources. There has been mention of interest by the agency of pursuing an additional independent review and analysis of entrance fee options. If the subcommittee wants to pursuer and additional review and analysis, it should consider both: 1) who will conduct the review and 2) how it wishes to fund it.

ITEM 1110-1111 DEPARTMENT OF CONSUMER AFFAIRS

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

ISSUE 1: CONTRACTORS' STATE LICENSING BOARD – UNDERGROUND ECONOMY INVESTIGATIVE FRAUD TEAM

The Contractors State Licensing Board (CSLB) is requesting a special fund budget expenditure authority augmentation of $998,000 and 11 three-year limited term positions in FY 2005-06 for the purposes of taking proactive measures against unlicensed contractors. In coordination with Departments under the Labor and Workforce Development Agency, the Board will target unlicensed contractors through sweep and sting operations and will increase the number of investigations opened as a result of consumer complaints against unlicensed contractors. This effort is part of the Administration's Economic and Employment Enforcement ("Triple E") Coalition focused on reining in the underground economy.

COMMENTS

As mandated by statute, the CSLB is the State's primary body responsible for the regulation and enforcement of contractors in the California construction industry. In response to complaints brought by the public, the CSLB performs sweep and sting operations as well as joint operations with members from law enforcement agencies throughout the state. Starting in the 2002-03 fiscal year, the CSLB lost 11 enforcement positions in the Statewide Investigative Fraud Team (SWIFT) due to vacant position reductions, thus restricting their ability to respond to complaints and pursue enforcement activities against the underground economy and unlicensed activity.

While SWIFT staffing has declined since 2002-03, complaints against non-licensed entities have increased annually.

FY 2000/2001	FY 2001/2002	FY 2002/2003	FY 2003/2004
2,315	2,867	3,417	4,152

While the "Triple E" is a new coalition proposed in the 2005-06 budget, many of the activities proposed to be conducted by SWIFT have been ongoing and consequently have been reduced by statewide budget reductions. The Department should be prepared to highlight how these new activities will differ from ongoing duties and how it plans on coordinating with the other state entities in the "Triple E" Coalition.

ISSUE 2: BUREAU OF AUTOMOTIVE REPAIR – VEHICLE RETIREMENT PROGRAM

The Bureau of Automotive Repair (BAR) is mandated to provide qualified consumers financial assistance toward the repair or the retirement of a vehicle that fails its biennial Smog Check inspection through the Consumer Assistance Program (CAP). CAP was funded by the Smog Impact Fee and the Smog Abatement Fee. However, in 1999, an appellate court ruled the Smog Impact fee as unconstitutional. In FY 2001-02, BAR transferred $44 million generated by the Smog Impact Fee to the General Fund, and submitted a negative FY 2002-03 Budget Change Proposal (BCP) to reduce position and expenditure authority.

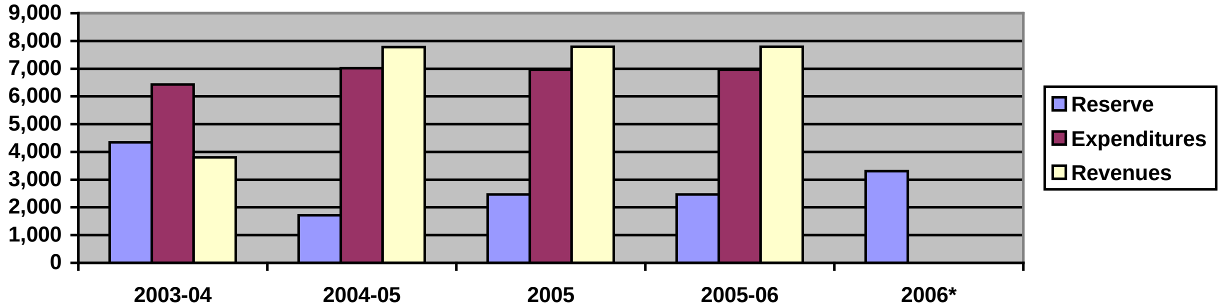
Resulting from these reductions, BAR suspended the vehicle retirement option of CAP on January 1, 2002. For the 2005-06 budget, BAR is requesting a permanent augmentation of $13,638,000 and 21 positions to fully operate the BAR Program, pending enactment related legislation.

ISSUE 3: BUREAU OF SECURITY AND INVESTIGATIVE SERVICES

The Bureau of Security and Investigative Services ensures that only those who meet the prescribed qualifications to offer services as private investigators repossessors uniformed security guards, private patrol operators, alarm company operators, alarm agents, locksmiths, and firearm and baton training facilities be licensed and enforces the regulations established by legislation for such licenses.

Private Security Services Fund Balance

The Private Security Services Fund is the primary fund to support operations of the Bureau of Security and Investigative Services. Since 2004, reserves in the fund have been growing at a disproportionate rate to expenditures, resulting in an increase in reserves of $1.6 million. The graph on the next page shows the expected growth of the reserve from 2004-2006.



*expected reserve for 2006.

COMMENTS

Currently there is a $3.3 million reserve in the Private Security Services Fund and the subcommittee may wish to utilize increasing reserve to address possible funding shortfalls currently present in the Bureau.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees housing planning statewide and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor's Budget proposes $563.2 million ($13.3 million General Fund and $549.9 million other funds) and 492.6 personnel years for the department's activities in fiscal year 2005-06. This represents a decrease of $34.9 million but an increase of 5.9 positions from the revised 2004-05 Budget. Staffing is increased for mobile and manufactured home titling. Overall funding declines primarily due to timing of major project approvals from housing bond funds. The Department has been instructed to reduce its state operations budget by $76,000 with the flexibility to implement through layoffs, hiring freeze, procurement reductions, or other administrative means as it may choose.

The General Fund supports the following HCD state operations: State Housing Law and Employee Housing Law enforcement; administration of the California Indian Assistance, Community Development Block Grant, Emergency Shelter, Housing Assistance, and Migrant Services programs; Housing Element, and Redevelopment Agency oversight, reporting, and audits.

ISSUE 1: OFFICE OF MIGRANT SERVICES RECONSTRUCTION PLAN

The Governor's Budget proposes adoption of Trailer Bill Language to authorize the use of $9.5 million of Proposition 46 Housing Bond funds in the Joe Serna, Jr. Farmworker Housing Grant Fund by the department's Office of Migrant Services (OMS) for rehabilitation and improvement of several state-owned migrant housing centers. Specifically, the $9.5 million would be used for the following purposes:

- $5.75 million to complete two migrant centers currently under construction and/or in the predevelopment stage but in need of supplemental funds. These centers are at Newell in Modoc County ($2.5 million) and Planada in Merced County ($3.25 million).

- $850,000 to construct a required water system and perform long-delayed road and drainage repairs at the Dixon migrant center in Solano County.

- $480,000 for a capital repairs reserve.

- $2.42 million to continue the replacement of migrant center child care buildings that have outlived their useful lives at Los Banos in Merced County ($900,000) and Artesi II in Merced County.

Background. The Office of Migrant Services operates 2,103 units of family housing that provide seasonal housing to approximately 11,000 migrant farm workers and family members annually. Privately operated labor camps provide some 26,000 units, most often for single workers.

Proposition 46, approved in 2002, provided a total of $200 million for the Joe Serna, Jr. Farmworker Housing Grant (JSJFWHG) Program, of which $25 million was designated specifically for migrant housing. That program was established to encourage non-state entities (local governments and nonprofit organizations) to construct farmworker housing. However, HCD has received few qualifying applications and expects to award only about $3 million in grants. Under the terms of Proposition 46, uncommitted migrant housing funds will revert to the general JSJFWHG Program after August 2005, and then can be used for either year-round or migrant farmworker housing projects.

Construction of the OMS centers was financed in the past by a total of $31 million from the General Fund, federal funds, and certain other bond funds. Federal funding continues to be available to cover a portion of the costs. However, starting in 2003-04, state funding was switched to Proposition 46 migrant funds through budget trailer legislation modifying the provisions of Proposition 46, as allowed under that measure. The 2003-04 action capped this use of the money at $5.5 million. The 2005-06 request would increase this cap to $15 million in order to finance (in combination with federal funds) the completion of the departments OMS construction/reconstruction plans. One reason for the large increase is that HCD indicates that construction costs have increased substantially, and now average about $100,000 per unit, compared with half that amount during the period 1993 to 2001.

The department has awarded Grant applications have been below expectations – with only 3 applications approved totaling less than $3 million. Current law caps the amount of this funding available for OMS farmworker housing at $5.5 million. This request is for trailer bill language increasing that cap to $15.0 million.

COMMENTS

1. The department points out that housing for migrant farmworkers is more expensive to finance and operate because it is used only seasonally in most cases and that demand for bond funds to finance year-round farmworker housing has been much stronger. The department should update the subcommittee on the current amounts of grants it has awarded or that are currently under consideration for both the migrant and year-round farmworker housing bond funds.

2. The department indicates that completing the reconstruction/renovation of child care centers will require several million dollars of additional funding in future years.

3. Some housing advocates argue that current JSJFWHG Program requirements are overly complex, rigid, and burdensome and that these requirements discourage potentially viable projects. For example, the program limits grant awards to half of a project's cost. In contrast, bond funds will provide more than half of cost of the department's own projects. The subcommittee may wish to explore the possibility of relaxing some of the existing requirements for a portion of the farmworker housing funds to encourage additional migrant housing projects.

ISSUE 2: HCD RENT CHARGES FOR FARMWORKER HOUSING

Last year, the Legislature approved budget trailer legislation (included in SB 1102, Chapter 227, Statutes of 2004) that prohibited HCD from imposing rents for residents of any OMS Facility that exceed 30 percent of the average annualized household incomes of residents of the facility without specific legislative authorization. However, this language was chaptered out by AB 868 (Parra) (Chapter 868, Statutes of 2004).

HCD indicates that the current rents fall below 30 percent of the average annualized household incomes of residents. Rental income helps cover the operating costs of the migrant centers, and the July 1, 2004, rent increase resulted in about a $500,000 annual revenue gain. The table below illustrates the current rent structure:

Daily Rental Rates by Size of Unit			
	2 Bedroom	3 Bedroom	4 Bedroom
2003-04 Rates	$7.50	$8.00	$8.50
2004-05 Rates	$9.50	$10.00	$10.50
2005-06 Rates*	$9.50	$10.00	$10.50
* HCD indicates it does not intend to increase rents in 2005.			

COMMENTS

1. Re-adopting last year's Trailer Bill provision would correct the unintended chaptering out of that language.

2. The department indicates that it does not object to adoption of the language. There would be no impact on the department's budget or its planned rent structure.

3. Senate Subcommittee 4 has adopted this provision.

ISSUE 3: EMERGENCY HOUSING ASSISTANCE PROGRAM (EHAP)

The Governor's Budget proposes an EHAP funding reduction of $864,000 – to $3.1 million (General Fund). The program provides operating facility grants for basic homeless shelter operating costs such as rent, utilities, salaries of core administrative staff and services.

HCD makes grants to counties, cities and non profit groups. The amount of funding allocated to each county is based on a statutory formula which considers poverty and unemployment rates. A history of program funding is outlined in the following table:

State Operating Funding for Emergency Housing Assistance (in millions)								
	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05**	2005-06***
Funding	$2.0	$2.0	$39.0	$13.3	$5.3	$5.3	$4.0	$3.1

* Supported with special funds in 1998-99, General Fund thereafter.
** The Legislature approved $5.3 million, but the Governor reduced the amount to $4 million.
*** Proposed

Federal Funds and Bond Funds. In addition to the state EHAP operating grants, the department indicates that it will provide $6.7 million in the current year and $7 million in 2005-06 of federal funds to local grantees for support of homeless programs. However, most larger cities and counties receive their funding directly from the federal government and those amounts are not included in these figures. The federal Department of Housing and Urban Development (HUD) recently announced a total of $228.4 million of grants to California for the current annual funding cycle. The bulk of the money is allocated under competitive programs that provide funding for transitional and permanent housing and supportive services. The Emergency Shelter Grants component provides $20.3 million for homeless prevention and emergency assistance (the federal funds that flow through HCD are included in this component).

Also, Proposition 46 provides a total of $195 million of bond funds for construction costs of homeless shelters. The department indicates that it plans to allocate $31 million of these funds annually in the current year and in 2005-06.

COMMENTS

1. The department indicates the proposed funding reduction for the budget year was not based on any caseload reduction, but instead "was among many difficult choices facing the Administration to bring the budget into balance."

2. According to HCD, EHAP operating grants typically represent only about ten to twelve percent of the total operating budgets for emergency shelters. The department does not expect the proposed reduction to cause the closure of shelters. The impact will vary from grantee to grantee. Likely results include; fewer persons served per day and reductions in the availability of specific services, for example, counseling sessions, employment training, tenant skills training, motel vouchers, and move-in assistance. Homeless programs are primarily funded at the local level. HCD estimates that $3.1 million would serve 4,700 persons per day, while $4.0 million would serve 6,100 persons per day.

3. The department should update the subcommittee regarding the outlook for federal funding in 2005-06, and regarding how other sources of federal funding, such as Community Development Block Grants, affect emergency housing programs.

ISSUE 4: ECONOMIC DEVELOPMENT AREAS

The State currently designates four types of economic development areas (EDAs) intended to attract and retain businesses in economically-challenged communities. Currently, there are 39 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). Administration of these programs was transferred to HCD from the former Trade and Commerce Agency. Last year, budget trailer legislation (SB 1097) provided HCD authority, until July 1, 2006, to impose a fee, not to exceed $10, for each application for an Enterprise Zone hiring tax credit voucher. Businesses are only required to pay the fee if they choose to take advantage of the tax credit. This fee funds the State's cost of the Economic Development Areas Programs ($668,000 and 6 positions), which would otherwise be a General Fund expense. Statute does not currently authorize the imposition of fees to cover the State's administrative costs for the LAMBRA, MEA, and TTA programs. There are approximately 55,000 businesses using the EZ tax credit and only about 2,300 businesses using tax credits in all the other economic development areas.

Major Tax Expenditure Program. The EDA programs provide significant tax benefits to businesses operating in them. These include income tax hiring credits, wage credits for qualifying employees, and credits for sales or use tax paid on manufacturing equipment or parts. The Legislative Analyst's Office (LAO) estimates that these tax benefits will total more than $270 million in 2004-05. In December of 2003, the LAO published a report on the EDA programs and concluded that they may be effective in achieving one of their primary goals—increasing business activity and employment within the designated zones. However, LAO was doubtful that the EDA programs had any significant overall effect on the total amount of statewide business activity and employment.

Audit Requirement. Existing law (Section 7076.1 of the Government Code) requires the department to audit programs at least every five years to determine how well they are meeting their goals.

COMMENTS

1. It would seem reasonable to include LAMBRAs, MEAs, and TTAs in the fee structure. According to HCD, there is no administrative problem with also requiring the businesses that use the other tax-credit programs to help support the State's administrative cost of the programs.

2. The administration indicates that it does not support elimination of the fee sunset and wishes to reconsider the fee issue during 2005-06. However, staff notes that the existing sunset date of June 30, 2006 could result in disruption of the program next year in the event of a late budget or if significant changes in the fee structure are adopted. Consequently, the subcommittee may wish to consider adoption of Trailer Bill Language to include all EDAs in the fees and to extend the sunset date by a few months—until October 1, 2006.

3. The department should provide the subcommittee with its plans and timetable for performing the statutorily required audits and also identify any funding or staffing required to perform the audits.

ISSUE 5: REGIONAL HOUSING NEEDS ASSESSMENT (RHNA) MANDATE

The Governor's Budget proposes to suspend the RHNA mandate in 2005-06.

Chapter 1143, Statutes of 1980 (AB 2853, Roos), significantly expanded the requirements of local housing elements by requiring additional analysis of local housing needs, particularly in relation to housing by income group. Each community is assigned numeric housing development goals by income (that community's "fair share" of housing) through a process administered by regional councils of government (COGs).

A 1981 determination by the former Board of Control determined that Chapter 1143 imposed reimbursable state-mandated costs on local governments.) Specifically, for the following expenses:

- **Regional COGs.** Expenses related to the administrative costs of distributing the region's total housing goals to individual communities, including public meetings and any necessary revisions.

- **Cities and Counties.** Expenses related to reviewing the COGs' housing allocations and examining a variety of specialized housing factors in their housing element, such as housing availability for the disabled and farmworkers and energy conservation.

Recent Legislation. Budget trailer legislation adopted with the 2004-05 Budget (SB 1102) eliminated some of the requirements of Chapter 1143, provided specific fee authority to COGs, and directed the Commission on State Mandates (COSM) to reconsider the Board of Control's decision.

Pending COSM Decision. At its meeting tomorrow (Wednesday, March 30th), the COSM is scheduled to consider a staff recommendation to find that costs of complying with the RHNA mandate are not subject to state reimbursement because all of the affected local entities have fee authority to cover those costs.

COMMENTS

1. Action on this issue should be deferred pending a decision by the COSM. If the COSM adopts its staff recommendation, then the suspension item should be deleted.

ISSUE 6: TRANSFER FROM THE HOUSING TRUST FUND

The budget proposes a transfer of $2 million from the Housing Trust Fund (HTF) to the General Fund.

Background. The HTF received $2 million from Tidelands Oil Revenues in the current year pursuant to Resources Code Section 6217. The Department of Finance (DOF) states that this was due to an oversight in its preparation of the 2004-05 Governor's Budget, and that the administration had intended to propose language diverting this money to the General Fund. The current proposal is intended to rectify this oversight. The 2004-05 Budget did not include any expenditure of the HTF funds.

COMMENTS

To staff's knowledge, the Legislature did not explicitly consider the allocation of Tidelands Oil Revenues to the HTF during consideration of the 2004-05 Budget.

ISSUE 7: OTHER BUDGET CHANGE PROPOSALS

Mobilehome-Manufactured Home Registration and Titling Program Staffing. The Department requests to convert five temporary help positions to permanent positions to be funded within existing resources. HCD is charged with processing mobile home registration and titling documents. During the 1990s, the program had a backlog of over 120,000 documents with turnaround time as high as two years, and staffing was augmented to achieve the goal of a 15-day turnaround. Over the past couple of years, HCD has added temporary staffing to maintain the 15-day goal, while also improving efficiency – the production rate has increased from 1.65 applications per hour in 2002, to 2.3 applications per hour currently. The Department expects the workload to stay at level which will require this extra staffing on a permanent basis.

Federal HOME Program Staffing. HCD requests position and expenditure authority ($634,000 federal funds) to make five limited-term HOME-Program positions permanent. This request would continue staffing at the existing level of 30 positions. The HOME Program is the largest federal block grant to State and local governments created exclusively for the creation and preservation of affordable housing. The federal Housing and Urban Development Department (HUD) allows the state to use 10 percent of the HOME annual allocation for administrative costs. No state match is required. HCD received the grant funds on behalf of the state, and then makes the funds available to eligible applicants in cities and counties that do not receive a direct federal allocation.

No issues have been raised with either of these requests.

ITEM 9620 PAYMENT OF INTEREST ON GENERAL FUND LOANS

This portion of the budget accounts for General Fund interest costs for short-term, cash-flow borrowing. The Budget Bill appropriates $30 million for interest payments on ***internal*** borrowing from special funds within the State Treasury. Costs for ***external*** borrowing on the open market (by issuing Revenue Anticipation Notes, RANs, or Revenue Anticipation Warrants, RAWs) are continuously appropriated. The budget anticipates issuance of a $6 billion RAN in 2005-06 and estimates $135 million for interest and other costs associated with that borrowing.

Cash-flow borrowing (whether internal or external) has no effect on revenues or expenditures as shown in the budget, other than the interest costs. In addition, previous budgets have included longer-term budgetary loans to the General Fund from various special funds. These "on-budget" loans have been included in GF resources as shown in the budget and both interest costs and repayments are counted as budget expenditures. The 2005-06 Governor's Budget proposes a GF appropriation of $11.325 million for interest costs for a total of $200.9 million of special fund loans (out of an outstanding total of $2.4 billion) that are budgeted for repayment in 2005-06.

The item also includes language allowing the Director of Finance to augment the amounts for internal borrowing, for interest costs on prior budgetary loans, or for the cost of issuing RAWs (although none are currently proposed) including any credit enhancements, subject to legislative notification.

COMMENTS

The Department of Finance will reevaluate the state's borrowing needs and estimated interest costs and provide an update for the May Revision.