AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

PART II

Assemblymember Rudy Bermudez, Chair

TUESDAY, MAY 10, 2005
1:30 PM, ROOM 447

CONSENT CALENDAR

ITEM	DESCRIPTION
0650	OFFICE OF PLANNING AND RESEARCH APRIL FINANCE LETTER – MAKE POSITIONS 2 YEAR LIMITED TERM
0956	CALIFORNIA DEBT & INVESTMENT ADVISORY COMMITTEE
0959	CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
0965	CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMITTEE
0968	CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE FINANCE LETTER—STAFF REDIRECTION, NO NET COST.
0971	CALIFORNIA ALTERNATIVE ENERGY & ADVANCED TRANSPORTATION FINANCING AUTHORITY
0977	CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
0985	CALIFORNIA SCHOOL FINANCE AUTHORITY
CS. 11.11	PRIVACY OF INFORMATION IN PAY STUBS
CS 12.30	SPECIAL FUND FOR ECONOMIC UNCERTAINTIES

ITEMS TO BE HEARD

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ITEM 0950 STATE TREASURER

The State Treasurer is the statewide elected official charged with custody of state funds. The Treasurer's Office provides banking services for state government with the goals of minimizing interest and service costs and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

The Treasurer serves as chair or member of these various agencies that organizationally report to the State Treasurer's Office. Many of these agencies are authorized to issue debt for specific purposes as permitted by law. These agencies also may advise California municipalities on debt issuance and oversee the state's various investment operations.

Total proposed budget expenditures for the State Treasurer's Office are $22.7 million, of which $6.1 million is from the General Fund. The table below shows spending and staffing for the State Treasurer's Office for the current year and as proposed for the budget year.

Summary of Expenditures (dollars in thousands)	**2004-05**	**2005-06**	**$ Change**	**% Change**
Programs				
Investment Services	$2,715	$2,709	-$6	-0.2
Cash Management	7,623	7,603	-20	-0.3
Public Finance	5,992	5,973	-19	-0.3
Securities Management	4,260	4,249	-11	-0.3
Administration and Information Services	9,714	9,874	160	1.6
Distributed Administration	-7,680	-7,693	-13	0.0
Total, Programs	**$22,624**	**$22,715**	**$91**	**0.4%**
Fund Source				
General Fund	$6,028	$6,068	$40	0.7%
Reimbursements	16,596	16,647	51	0.3%
Personnel-Years	228.8	228.8	--	--

ISSUE 1: SHORT-TERM LOAN AUTHORITY

The Governor's Budget includes Budget Bill language (Provision 1 of Item 0950-001-0001) that would enable the Director of Finance to authorize a no interest, short-term loan from the General Fund to the State Treasurer's Office for the purpose of meeting cash shortfalls resulting from delayed reimbursements from other funds (generally for costs related to bond issuance). The language allows up to six months for repayment. However, the budget change proposal justifying this provision indicates that loans will be paid within two months of origination. Consequently, it is unnecessary to grant six months for repayment of these General Fund loans.

ISSUE 2: STATE BORROWING CAPACITY AND DEBT OBLIGATIONS--INFORMATIONAL

The Treasurer is responsible for issuing most state debt and for making payments on that debt. He seeks to obtain the most favorable terms for state borrowing and the best possible credit rating for the state. The Treasurer's responsibilities include monitoring the state's outstanding debt and debt capacity. As of December 1, 2004, the Treasurer estimated that the state's total future obligations for principal and interest payments on already-issued state general obligation and lease-revenue bonds were $85.4 billion.

- How much state debt currently is outstanding? How much will be issued under existing bond authorizations and programs over the next few years?
- What is the current total annual cost of debt service to the state? What is the state's current and projected ratio of debt-service costs to annual revenue, particularly for the General Fund?
- What are the state's current credit ratings and what outlook do the rating agencies have regarding the state at this time?
- How much additional debt capacity does the state have for new bond programs within the existing revenue structure?
- Through its advisory group, BAR has established a subcommittee to study and evaluate the issues of general automotive repair technician competency and supply.

ISSUE 3: CALHOPE TRUST PROPOSAL

The Treasurer is sponsoring AB 593 (Frommer) to create a new entrepreneurial entity—the CalHope Trust--to manage state real estate. The proposal would remove a portion of the real estate owned by State government from the management of the Department of General Services and transfer it (through subsequent legislation) to the CalHope Trust.

The CalHope Trust would:

- Operate like a high quality real estate business charged with achieving financial returns on investment, housing State tenants in a cost-efficient way, and building high quality projects that meet smart growth principles and the highest standards of design and environmental sustainability.
- Buy, lease, build, and sell properties, and enter into joint ventures with private-sector firms, the State's pension funds, and local communities.
- Be subject to State, regional, and local land use and environmental approvals that apply to private-sector projects.
- Organize itself as a public trust corporation, with a public board of appointees subject to open meeting laws and a staff similar to those at the California Public Employees' Retirement System (PERS) and the California State Teachers' Retirement System (STRS), which successfully manage multi-billion dollar real estate portfolios earning more than 10 percent annually over the last five years.

According to the Treasurer, the State's management of its real estate is widely decried as inefficient and costly. In his view, the Trust would offer California opportunities the State has long squandered: to produce revenue; build higher-quality, environmentally sustainable, smart growth projects; create jobs; and reduce government costs. The Trust would manage California's new land grant to yield a financial return. AB 593 would dedicate these revenues to an endowment for higher education.

COMMENTS

The subcommittee oversees the management of the state's real estate assets by the Department of General Services (DGS), as well as the operations of PERS and STRS. Accordingly, the subcommittee may wish to ask the Treasurer to provide an overview of the CalHope Trust proposal, and to address the following points in particular:

1. What are some of the key failings in DGS' management of state real estate assets?
2. What would be some specific examples of how the CalHope Trust's approach would differ from the way in which DGS currently manages state real estate assets?
3. How would the CalHope Trust ensure that the real estate and facility needs of state agencies and programs are met?
4. What is the potential for additional revenue from implementing the approach of the CalHope Trust and AB 593?

ITEM 0860 STATE BOARD OF EQUALIZATION

This item was first heard on April 19th, and the following issues were held open at that time.

ISSUE 1: INCREASING ELECTRONIC PAYMENT AND FILING

At its April 19th hearing, the subcommittee directed the Board of Equalization (BOE) and the Legislative Analyst's Office (LAO) to report back on ways to increase the use of e-filing and electronic funds transfers (EFTs) for the sales and use tax (SUT). Electronic tax filings (or submissions that can be scanned and converted to digital form) represent a small share of total tax returns to the board. The workload at BOE tends to be largely paper-driven. Submissions of documentation are generally still conducted through paper methods and, as a result, the processing of such submissions tends to be manually intensive.

Electronic Funds Transfers (EFTs). The board receives about 60 percent of the total SUT revenue through EFTs, but EFTs account for a much smaller proportion of the number of payments. The BOE offers the Automated Clearing House debit method which allows taxpayers to transfer funds by authorizing the BOE to electronically debit their bank account when their payment information is submitted. Businesses whose average monthly tax payments are $20,000 or more are required to pay their taxes by EFT. This $20,000 threshold has been unchanged for nearly a decade. The board indicates that it currently is conducting an outreach effort to encourage voluntary EFT payments by taxpayers with average monthly payments between $15,000 and $20,000.

E-Filing. The board has accepted e-filing over the Internet since 2001, but for the first half of 2004-05, BOE received only about 7,218 e-returns from a total of about 700,000 eligible retailers, in part this low participation is because e-filing must be done through private companies that charge fees. BOE now plans to develop a free in-house e-filing option for retailers that it will have on-line by December 2005. BOE has a target of a 10-percent increase in the number of e-filers as a result of this free in-house e-filing option. For the future, BOE indicates that it plans to allow use of credit and debit cards for payment in addition to EFTs, and also allow e-filing of special taxes in addition to the SUT by 2008. The board also is planning to expand e-filing to include multiple-location retailers (only single-location businesses now qualify) by 2009.

COMMENTS

Should the EFT Threshold Be Reduced? The Board of Equalization annually processes more than $33 billion in SUT and other tax remittances. Of that amount, approximately 60 percent are paid through free EFT's.

Increased EFT payments would result in more rapid deposit of funds into the state's accounts. The BOE estimates that additional interest earnings of $192,000 and $344,000 would be generated by lowering the EFT payment threshold to $10,000 or $5,000, respectively. It should be noted that BOE indicates that its new e-filing system will require payment via EFT.

- The BOE should address the feasibility and desirability of reducing the EFT payment threshold.

Why Will E-Filing Expansion Take So Long? The deployment of free e-filing capability by BOE in December 2005 will be a significant step forward. However, most large retailers have multiple locations and will not be able to e-file. The BOE does not plan to have an e-filing option in place for these large retailers until 2009. Also, e-filing for special taxes will not be available until 2008 under the board's schedule.

- The BOE should explain why the timelines on its E-filing expansions cannot be moved up to 2007, and discuss the potential for administrative savings.

ISSUE 2: APRIL FINANCE LETTER--HEADQUARTERS BUILDING WINDOW REPAIRS

In an April 1st letter, the Department of Finance, on behalf of the Board of Equalization, requests an augmentation of $12,292,000 ($7.129 million General Fund) for repair of the windows on the BOE's Sacramento headquarters building. Over the last few years progressive deterioration of the window gaskets has occurred, to the point where leaks are common and there is danger of windows falling away from or into the building.

In the 2004 Budget Act, the Legislature appropriated $100,000 for a detailed budget package of project costs and directed the BOE to explore the possibility for holding the window manufacturer accountable for the window defects. DGS staff (working on behalf of the BOE) reported back that a one-year warranty on the gasket material had been originally negotiated several years ago and that litigation was not promising.

In order to implement the change, the BOE requests provisional language be added to Item 0860-001-0001:

> *Of the amount appropriated in Schedule (2) of this Item, $12,292,000 shall be for repair of the window curtain on the Board of Equalization's Sacramento headquarters building. The Board of Equalization shall use these funds to effect all window curtain repairs deemed necessary by the Department of General Services.*

COMMENTS

LAO Recommends Deferring Construction. The LAO has expressed concerns that the replacement schedule is particularly aggressive and may not afford time for a comprehensive testing of the prototype gasket. As an alternative, the BOE should be funded for preliminary plans only, with the working drawings and construction phases held over until a subsequent year. The additional time will afford the DGS (the agency directly responsible for the repair) the opportunity to fully test a prototype of the gasket material. The LAO recommends reducing the proposal by $11,602,000 to provide funding of $690,000 for only the preliminary plans phase in 2005-06.

How Big Is the Risk of Waiting? The problem with the window gaskets has been known for a number of years. Furthermore, the Department of Finance justifies its request on the basis that the existing situation is dangerous (windows may fall into or away from the building) to employees and the public, places the state in legal jeopardy, and could "render the building uninhabitable." The Department of General Services (DGS) and the BOE should answer the following questions:

- How immediate and serious is the danger to employees and the public?
- How immediate and serious is the risk of further leakage and substantial damage to the building and to BOE equipment and records?
- Have employee groups been consulted, and have they expressed any concerns?
- Will DGS require a guarantee for the new gaskets? Has DGS explored a design-build approach in which a supplier would design and provide new gaskets backed by a substantial long-term guarantee?

Potential Options:

There appears to be a number of options for action, depending on the responses to the points above:

1. Approve the DOF request for full construction funding.
2. Approve the LAO recommendation to fund preliminary plans in 2005-06, with construction funding to come later.
3. A hybrid—adopt the LAO recommendation but with language allowing DOF (subject to legislative notification and review) to augment the amount to cover construction if the project is ready for the construction phase and the need is urgent.
4. Provides funding for a design-build contract with adequate warranties.

ISSUE 3: CONSUMER USE TAX STAFFING INCREASE—APRIL FINANCE LETTER

The board requests seven, two-year limited term tax technician positions for the Consumer Use Tax Section. Of the requested positions, six would be assigned to the Vessel, Vehicle, and Aircraft Program and one to the United States Customs Program.

The Vehicle, Vessel and Aircraft Program enforces use tax payment requirements for purchases of vehicles, vessels, and aircraft from non-licensed sellers (e.g. private individuals). Due to recent position reductions and new workload requirements, the BOE shifted personnel away from the Vehicle, Vessel, and Aircraft Program. This request would restore some of those revenue-generating positions.

The workload associated with the U.S. Customs Program is based on a recent pilot project that involved reviewing Customs data on over one million individual quarterly transactions for items imported through California's commercial ports of entry and then colleting use tax due. The results from that pilot were surprising: over $6,400 in collections per hour of work. In budgeting for the new position, the Board conservatively estimated $1,000 per hour in 2005-06 and 2006-07.

COMMENTS

Potential For $4.3 Million In Additional Revenue. The BOE has estimated that additional support would generate greater tax compliance and additional revenues. With the addition of 12 (versus 6) new positions, the Vehicle, Vessel, and Aircraft Program would generate an estimated $5 million in the current year and $10 million in 2006-07—an increase of $2 million and $4 million, respectively, compared with the Finance Letter request. Furthermore, the addition of two additional positions in the Customs Program would generate an additional $2.3 million in the budget year and subsequent year. With this total augmentation of eight positions, the additional new General Fund revenue has been estimated by the BOE to be $4.3 million in 2005-06—plus additional local revenues.

The cost of the additional positions would be about $470,000, for a net General Fund gain of about $3.8 million, with a larger gain in the following year.

ISSUE 4: OTHER APRIL 1 FINANCE LETTERS

In an April 1 Finance letter the administration is requesting the following two budget changes:

Out-of-State Legal Representation. The BOE requests to augment its budget by $1,862,000 ($1,430,000 GF) to provide additional resources to contract with outside counsel for representation in out-of-state legal cases. These services had previously been provided by the Department of Justice; however, the DOJ recently notified the BOE that it would no longer pay for legal representation in out-of-state cases. Funding for four positions to monitor outside legal contracts and track the progress of the cases in question is included in the request.

Comment. Essentially, this represents a cost shift from DOJ to the BOE. Should the DOJ budget be reduced to reflect the savings there? The subcommittee may wish to explore this issue when it next takes up the DOJ budget.

Revised Alternative Cigarette Tax Stamp Project Funding. In a Finance Letter presented to the Legislature in May of last year, the BOE sought $4.9 million for 2004-05 and $9.8 million ongoing to implement the provisions of Chapter 881, Statutes of 2002 (SB 1701, Peace). That statue requires the board to replace the current cigarette stamps with an encrypted stamp that can be read by a scanner. Expected annual revenues from reduced black market sales were $28.8 million.

This Finance Letter requests to adjust expected costs and revenues due to delays in implementing the new stamp and an ongoing savings for information technology. Litigation against the Board by one of the losing bidders for the encrypted stamp contract resulted in a postponed project start and a delay in implementation by many cigarette sellers. Consequently, current year costs will be reduced by $1.9 million and ongoing costs reduced by $4.5 million ($516,000 General Fund). Updated revenue estimates are $8.2 million in the current year and $28.1 million ongoing (primarily to special funds).

ISSUE 5: ADDRESSING THE SALES AND USE TAX GAP

The "Tax Gap" represents the shortfall between taxes owed and taxes paid. The BOE estimates that the 2003-04 tax gap for the sales and use tax totaled $1.18 billion annually, of which the state General Fund share was $1.1 billion. Aside from the $2.6 million from the consumer use tax proposal discussed in Issue 3, the BOE has no budget proposals to address the SUT tax gap.

COMMENTS

At its April 19th hearing, the subcommittee discussed several approaches to reducing the SUT tax gap. These included:

- **Increasing use tax compliance by businesses**. According to the BOE, the largest single component of the SUT tax gap results from failure of businesses to pay their use tax liability on purchases from out-of-state sellers. Noncompliance is a particular problem for businesses that are not registered with the BOE because they are not in the business of retailing.

- **Better control over the use of resale certificates.** BOE has indicated that it will conduct an exploratory audit of resale certificates accepted by a sample of large retailers in order to determine the extent of tax evasion due to abuse of resale certificates. This would help to determine the scope of the problem.

1. The BOE should report to the subcommittee regarding the need for legislation and/or resources to improve use tax compliance by businesses in order to collect a significant portion of the tax that now goes unpaid.

2. The BOE also should report to the subcommittee on the design and scope of the planned exploratory audit of the use of resale certificates.

Staff suggests adoption of the following Supplemental Report Language:

The Board of Equalization shall report to the Legislature by December 1, 2005 on the Sales and Use Tax Gap-- the shortfall between taxes owed and taxes paid. The report shall update the board's estimate of the gap, and identify its major components. The report also shall identify specific strategies and steps for reducing the tax gap, estimate revenues that would be produced by and the cost of implementing each approach, and recommend those actions that the board determines would be most cost-effective and feasible. In addition, to the extent that the information is not provided in the December 1 report, the board shall report to the Legislature by February1, 2005 on the methodology and findings of its pilot audit of the use of resale certificates, including the extent of compliance problems found by the audit and any options for improving compliance.

ITEM 1730 FRANCHISE TAX BOARD

This item was first heard on April 19th, and the following issues were held open at that time.

ISSUE 1: APRIL FINANCE LETTER—TRANSFER CHILD SUPPORT COLLECTION

At its April 19th hearing, the subcommittee deferred action on the following request pending action by Subcommittee 1 on the transfer of this function to the Department of Child Support Services (DCSS):

It is requested that the Board's budget be reduced by $12,360,000, as follows:

- Item 1730-001-0001 be reduced by $5,547,000
- Reimbursements for Item 1730-001-0001 be reduced by $6,813,000

This will allow for the transfer of the Child Support Full Collection Program, together with 168.5 associated positions, from the Board to the Department of Child Support Services. In accordance with the provisions of Chapter 806, Statutes of 2004, it is requested that this transfer take effect on July 1, 2005. The Department of Child Support Services is submitting a corresponding Finance Letter to reflect receipt of these funds and positions.

Subcommittee 1 now has approved the transfer to DCSS, and approval of this FTB request would conform with that action.

ISSUE 2: GOVERNOR'S BUDGET TAX GAP PROPOSALS

The subcommittee heard this issue on April 19th and held it open pending information on the potential for redirection of positions from the Ready Return Project to offset some of the additional costs of this proposal.

Tax Gap Enforcement Proposal. The Governor's budget proposes a package of five measures to reduce the tax gap at a cost of $8.6 million (General Fund) and 99.2 positions. The effort will target preparers of fraudulent returns, increase audit staff, use more information sources to identify nonfilers, expand underground economy criminal investigations, and provide informant rewards. The budget estimates that these measures will generate $34 million of General Fund revenue in 2005-06, increasing to nearly $44 million in 2006-07.

The administration's proposal includes a sizeable cost component for the hiring of auditors. The proposal calls for the hiring of 36 associate tax auditors at a monthly salary of $4,782, which is the midrange of the salary schedule.

Trailer Legislation Proposals. The Tax Gap Enforcement Proposal includes the following three proposals for budget trailer legislation:

1. Increase the limit on awards to informants from the current 10 to 15 percent of the additional tax collected.

2. Authorize the FTB to bar tax preparers and agents from practicing in California if they have been suspended or disbarred by the federal government.

3. Require check cashing businesses to report to the FTB any person cashing checks totaling more than $10,000 during a calendar year, whether in one transaction or multiple transactions.

Abusive Tax Shelter Taskforce. The Governor's budget proposes $1.8 million and 17.1 positions to increase staffing for the Abusive Tax Shelter Taskforce. The additional funding to combat abusive tax shelters is expected to generate $43 million in General Fund revenue in fiscal year 2005-06 and $60 million in fiscal year 2006-07. With this augmentation, the FTB will have 90 staff devoted to the Abusive Tax Shelter Taskforce.

LAO Recommendation. LAO recommends approval of the bulk of the Governor's Tax Gap proposals. However, LAO recommends an adjustment to the hiring level of the additional auditors included in the Tax Gap Enforcement Proposal. LAO recommends budgeting these positions at the entry level for a savings of $200,000.

COMMENTS

LAO Recommendation. FTB concurs with the LAO recommendation, but would prefer to retain this money in its budget offset to the unallocated reduction.

Ready Return Project . In August, the FTB board approved moving forward with a pilot project now titled "Ready Return." In this effort, the FTB uses information that already has been reported to it to prepare a pro-forma return for selected taxpayers. For example, the FTB may use information reported by employers through W-2s and bank reports of interest earnings to generate a pro-forma return. The taxpayer receives the return either in the mail or through the Internet and may accept and file it, revise it, or prepare their own return. At the April 19th hearing, the subcommittee directed FTB to (1) identify the number of staff and purpose of the funding that the FTB diverted to this project and (2) report on the feasibility of redirecting Ready Return positions to offset some of the cost of the Tax Gap proposal. The FTB has provided the following information:

- 2.0 personnel-years of staff and a total of $217,000 were diverted by FTB to carry out Ready Return.

- The diversion caused delays in work on important ongoing projects, including information systems maintenance and development for the e-file program, provision of data to the compliance research project of the audit program, evaluation of the usefulness of county assessor roles for identifying nonfilers, and planning for next year's Web application services.

Staff notes that no funding for Ready Return was included in the 2004-05 Budget. Furthermore, the impact of the diversion appears to have been detrimental to ongoing FTB programs for which the diverted staff were budgeted. If FTB believes that the results of the pilot provide a basis for continuation of Ready Return, then it should seek legislation to authorize this approach instead of diverting funds budgeted for other purposes

ISSUE 3: ADDITIONAL REVENUE GENERATION OPPORTUNITIES

The FTB has identified a number of additional revenue generation opportunities, including the following:

Reinstate Discovery Audits. Discovery audits are randomly selected and can provide valuable information on new areas of tax evasion or noncompliance. They also can uncover areas where simplification or better instructions could assist honest taxpayers. As such, they are an important element of a comprehensive tax administration program and it is one of the steps identified by the LAO to address the tax gap. FTB had a discovery audit program in the past, but resources were redirected to more immediate priorities. FTB indicates that it could implement a multidisciplinary compliance discovery audit program with 20 additional positions at an annual cost of $1.7 million ($1.2 million in 2005-06 due to filling auditor positions on January 1, 2006). Depending on the outcome of these audits, future revenue gains could be substantial, but are difficult to estimate. However, FTB indicates that it anticipates at least several million dollars annually of additional revenue. Accordingly, it would be conservative to budget offsetting revenues equal to the cost of the program.

Extend Collection Positions. The FTB estimates that extending 47 limited-term collection positions that expire at the end of the current year would generate $12.6 million in additional annual revenue at a cost of $2.8 million, for a net gain of $9.8 million.

Extend Settlement Positions. The FTB estimates that extending 2 limited-term settlement positions in the Legal Division that expire at the end of the current year would result in speeding up settlements and accelerating revenue. The revenue increase identified by the FTB is $5.8 million in 2005-06, $7.8 million in 2006-07 and $12.6 million in 2007-08. The cost of extending these positions is about $239,000.

COMMENTS

Adoption of all three of these actions would have a GF cost of about $4.3 million and result in an estimated General Fund revenue gain of about $19.6 million in 2004-05, increasing to $21.6 million in 2006-07.

The FTB should explain if the revenue estimate for the extension of the settlement positions takes into account the large amount of amnesty and protective payments that the state recently received.

Applying a 2-year limited term to any positions approved would facilitate a reevaluation of their productivity.

ITEM 8660 PUBLIC UTILITIES COMMISSION

The subcommittee initially heard this item at its April 5th hearing, and held the item open.

ISSUE 1: JANUARY BUDGET CHANGE PROPOSALS

The Governor's Budget includes the following budget change proposals for the Public Utilities Commission (PUC):

- **Household Goods Carrier Enforcement.** The commission regulates the operation of the household goods carrier industry. The budget includes an augmentation of $521,000 from the Transportation Rate Fund and 5.2 positions to address workload and improve investigative and enforcement activities related to incidents of illegal carrier activity.

- **Informal Complaint Resolution.** The Governor's budget proposes $483,000 from utility ratepayer funds to continue 8 positions on a permanent basis to address ongoing workload to resolve complaints from utility customers over billing and service disputes. These positions currently are limited-term.

- **Facility Special Repairs.** The budget proposes a total of $380,000 of one-time funding for specific maintenance projects at the commission's headquarters in San Francisco, as identified by the Department of General Services. The major components of this request include installation of new roof and window anchors for window cleaning scaffolds to meet CALOSHA standards ($150,000), Mylar blast film for windows ($90,000), and installation of restroom floor drains ($83,000).

- **Tenant Sub-Meter Complaints.** The budget proposes an increase of $73,000 for one position to implement SB 1163 (Dunn, Chapter 728, Statutes of 2004), which requires the commission to accept and respond to complaints from residential customers served through a master-meter arrangement (generally mobile home parks).

COMMENTS

Addressing the Consumer Complaint Backlog. At its April 5th hearing, the subcommittee directed the PUC's budget proposal to continue existing staff for informal complaint resolution does not address the existing backlog of consumer complaints, dropped calls to the complaint line, and long times to close out complaints. The subcommittee requested that the PUC report back on the staffing required to remedy these problems. In response, the PUC indicates that currently it takes an average of 105 days to close a compliant. To bring this time down to 60 days would require 19 additional staff.

- The PUC should provide a cost estimate for the additional staff and whether all would be needed on a permanent basis?

No issues have been raised concerning the other Governor's Budget proposals.

ISSUE 2: RAILROAD SAFETY

In light of recent derailments and other serious railroad accidents, the subcommittee directed the PUC to report on its rail safety operations, including recommendations that it has made to the railroads to improve safety and correct unsafe conditions, particularly those that have resulted in derailments and other accidents.

The PUC provided a report on April 18th that made 13 recommendations for improving rail safety. In addition, the PUC has developed a proposal to add 13 positions and $1.2 million to its rail safety program for inspections, investigations, analysis, and to increase the PUC's presence and participation in federal legislative and regulatory proceedings.

Also, the Speaker has established a Special Committee on Rail Safety to examine rail safety programs and policy in California and develop ways to improve safety and reduce accidents.

COMMENTS

The PUC should summarize the recommendations that it made in its April report to the subcommittee. Also, it would be helpful for the PUC to explain the extent of its authority under federal law.

Rail Safety Working Group. In order to address the subcommittee's concerns regarding rail safety, it would be useful for the PUC to constitute a working group, including experts from the railroad industry, railroad employees, the federal government, and public safety and emergency response agencies in order to provide a report by April 1, 2006 identifying safety problems or concerns and making recommendations for improvement in the following areas:

(1) Threats from vandalism or terrorism.
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(2) Deficiencies in current land use planning affecting rail safety.

(3) Deficiencies in rail emergency response.

An appropriation of $100,000 (PUC Transportation Reimbursement Account) would provide necessary support for this working group,

ISSUE 3: OFFICE OF RATEPAYER ADVOCATE—APRIL FINANCE LETTER

In an April 1 letter, the Department of Finance requested a change to the Budget Bill to move $18.4 million appropriated for the Office of Ratepayer Advocate (ORA) from the PUC Utilities Reimbursement Account to a separate item appropriated from the PUC Ratepayer Advocate Account. This is a technical adjustment to comply with existing law which requires separate budgeting of ORA. There is no fiscal effect of this change because the Ratepayer Advocate Account will be funded with a transfer from the Utilities Reimbursement Account.

COMMENTS

The purpose of this change is to comply with existing law which is intended to provide ORA with a limited amount of fiscal independence within the PUC.

Staff also has identified the following issues:

1. **Reimbursements.** The Governor's Budget also includes $3,848,000 in reimbursement funding for ORA. This amount also should be transferred to the new ORA item.

2. **Supervision and Reporting of Legal Staff**. In order to perform her advocacy role on behalf of ratepayers in an adequate and consistent manner, the Director of ORA (a gubernatorial appointee) should have direct supervision and control over ORA's core legal staff. However, that is not the case under the current structure. Instead, the PUC's chief counsel assigns legal staff on an as-needed basis to ORA. Trailer Bill Language providing the Director of ORA with supervision over ORA legal staff would ensure proper accountability and continuity. The ORA could, of course, choose to use temporarily assigned legal staff to provide specific expertise in individual cases or to address workload peaks. ORA legal staff would continue retain their full civil service status within the PUC and could seek transfers or promotions freely.

3. **Budget Transparency**. There is a natural tension between ORA's position as an office within the PUC and its role as an advocate expressing a point of view in PUC proceedings. Being within the PUC requires that its budget be subject to approval by the PUC. However, legislative oversight to ensure that ORA can carry out its mandated function requires transparency in the budget process. The PUC has committed to consideration of ORA's annual budget request in a public proceeding, which will provide a public record or the request and the commission's decision. This arrangement should be codified in Trailer Bill Language.

ISSUE 4: OTHER APRIL FINANCE LETTERS

The Department of Finance also has requested the following additional changes to the PUC budget:

Universal Lifeline Telephone Service

It is requested that Item 8660-001-0471 be increased by $6.0 million to provide a one-time increase for the Universal Lifeline Telephone Service (ULTS) Program and that Item 8660-001-0462 be amended to reflect this change. The ULTS Program provides discounted basic telephone service to low-income households. Based on the most recent projections, the Public Utilities Commission estimates total ULTS costs will exceed the current year appropriation by as much as $6.0 million to enroll approximately 53,000 new customers in the program. The ULTS Trust Administrative Committee Fund, which supports the ULTS Program, has an estimated reserve of $11.1 million, which is sufficient to support the one-time augmentation. Suggested Budget Bill language is attached that would authorize the use of these funds to pay prior year claims (Attachment 1).

Water Utility Rate Cases

It is requested that Item 8660-001-0462 be increased by $81,000 and 1.0 position to restore staffing that was eliminated pursuant to Control Section 4.10 of the Budget Act of 2003. The position will be restored to the Office of Ratepayer Advocates to review rates charged by regulated water companies, as required by existing statute.

No concerns have been raised regarding these proposals.

ITEM 8820 COMMISSION ON THE STATUS OF WOMEN

The Commission on the Status of Women serves to advance the causes of women; by advising the Governor and the Legislature; and educating and informing its constituencies.

The Governor's Budget proposes expenditures of $422,000 ($420,000 General Fund and $2,000 reimbursements) and 3.9 positions – a decrease of $3,000. These figures include a $7,000 unallocated General Fund reduction.

ISSUE 1: COMMISSION FUNDING

In January 2005, the Legislature received a deficiency request from the Administration of $8,768. The Commission had originally requested $36,823, and the Department of Finance had reduced the level to $8,768. While these costs appear to be ongoing in nature, the Governor's Budget does not include a related augmentation. Additionally, the Budget includes an unallocated General Fund reduction of $7,000 for the Commission.

Staff Comment: The Commission indicates it will not be able to absorb these reductions without a staff reduction or a move to an office away from the capitol – either of which, the Commission indicates, will decrease their effectiveness.

ITEM 1110-1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 1: APRIL 1 FINANCE LETTERS

The following have been proposed by the administration in an April 1 Finance Letter:

1. **Athletic Commission --** $46,000 (Special Fund) augmentation to provide funding for the implementation of Chapter 691, Statutes of 2004, related to mixed martial arts.

2. **Board of Registered Nursing --** $168,000 (Special Fund) augmentation to provide the necessary funding for the diversion program monitoring service contract due to recent increases in case load.

3. **Bureau of Automotive Repair –** Decrease item 1111-002-0421 by 4.0 positions from the Board to the DCA to centralize education and outreach services within the DCA's communications and Education Division.

4. **Department of Consumer Affairs Communications and Education Division –** Increase Item 1111-002-0702 by 4.0 positions to centralize education and outreach services within the Department. The Transfer of these positions from the BAR results in no additional costs.

5. **Department of Consumer Affairs Conversion to Self-Funded Workers' Compensation Benefit Program –** Amend Item 1111-002-0702 to reflect the following:
   - Increase of 1.5 positions to address the administrative functions associated with self-funded workers' compensation benefit program
   - Addition of a separate program schedule to sho workers' compensation funding totals.

COMMENTS

Staff had no concerns regarding these proposals and recommends approving as budgeted.

ISSUE 2: MEDICAL BOARD –CONTINGENT FUND BALANCE

The Medical Board of California is the State agency that licenses medical doctors, investigates complaints, disciplines those who violate the law, conducts physician evaluations, and facilitates rehabilitation where appropriate. The Board performs similar functions for affiliated healing arts professions including registered dispensing opticians, spectacle lens dispensers, contact lens dispensers, licensed midwives, and research psychoanalysts.

The Contingent Fund of the Medical Board (CFMB) is the primary fund from which the majority of programs administered by the Medical Board are funded. The CFMB receives revenues from multiple sources such as regulatory fees, license renewal fees, penalty assessments and other miscellaneous revenue - of which, licensing fees provide the majority of annual revenues to the CFMB.

Unstable Fund Balance. Currently, the CFMB reserve is expected to be fully depleted by the end of fiscal year 2006-07. While staffing has decreased by 44 positions since fiscal year 2000-01, expenditures for the fund have exceeded revenues annually. The following chart shows the CFMB fund statement for the last three years:

The Contingent Fund of the Medical Board **(dollars in thousands)**

	2003-04	2004-05	2005-06
Adjusted Beginning Balance	$12,369	$11,337	$7,055
Total Revenues, Transfers, and Other Adjustments	35,445	36,742	36,643
Total Expenditures and Expenditure Adjustments	36,477	41,024	42,568
Fund Balance	**11,337**	**7,055**	**1,130**

Since fiscal year 2000-01 staffing costs have declined annually, however various increases in other costs have put additional pressure on the CFMB – these costs are as follows:

Medical Board Budget Overview **(dollars in thousands)**

	2000-01	2004-05
Wages	$13,004	$12,720
Benefits	2,570	5,848
AG Costs	6,486	8,718
OAH	1,167	1,461
Evid/Wit	1,200	1,700
DCA Prorata	2,971	3,288
Rent	1,737	1,827
Total	**29,138**	**35,565**
Other	4,833	5,457
Physical Loan Repayment	--	1,150
Total Budget	**33,971**	**42,173**

While costs have increase for the CFMB, revenues have grown little since 2000-01. Licensing fees, which constitute the majority of revenues of the CFMB, have similarly experienced little growth since 2000-01. Currently, the Medical Board is able to charge a licensing fee of *up-to* $300 per year or $600 per each two-year renewal cycle. This fee structure has not been adjusted since 1994.

COMMENTS

Because of the current instability of the CFMB reserve, the subcommittee may wish to consider raising the ceiling that the Medical Board is able to charge for licensing fees from. Because this fee has not been adjusted since 1994, an increase of the fee ceiling that the Board can charge would provide the Board flexibility to increase fees *up-to* the determined cap and provide necessary revenue to address CFMB reserve shortfalls.