

**AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION**

Assemblymember Rudy Bermudez, Chair

MAY REVISION AND OPEN ISSUES

PART I

**TUESDAY, MAY 17, 2005, 1:30 PM
STATE CAPITOL, ROOM 447**

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ITEMS FOR CONSENT

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 1: EDD MAY REVISION CASELOAD ADJUSTMENTS

The May Revision makes technical adjustments to EDD caseloads and staffing levels to reflect more recent caseload data.

COMMENTS

Each year, in the May Revision, the Employment Development Department adjusts its caseloads and staffing to reflect the latest caseload data. These adjustments more accurately reflect the expected costs for the current and budget year for these programs. This year, EDD is requesting the following caseload adjustments.

- The Unemployment Insurance Program administration is decreased by \$23,114,000, to reflect a projected decrease in state operations for the Unemployment Insurance (UI) Program. This reduction is the net effect of a decrease of \$26,252,000 and 364 personnel years, to reflect an adjustment due to revised workload estimates for the UI program and an increase of \$3,138,000 and 37.9 personnel years, to reflect an adjustment due to revised workload estimates for the California Unemployment Insurance Appeals Board (CUIAB).
- Unemployment Insurance benefit payment expenditures are increased by \$36,137,000, to reflect a projected increase in UI benefit payments.
- The Disability Insurance Program and Benefit Adjustments is decreased by \$4,483,000, a result of the both a reduction of \$4,223,000 and 66.0 personnel years, to reflect an adjustment due to revised workload estimates for EDD and a reduction of \$260,000 and 2.8 personnel years, to reflect an adjustment due to revised workload estimates for CUIAB.
- Disability Insurance benefit payments expenditures are decreased by \$144,889,000, to reflect a caseload projected decrease in Disability Insurance benefit payments.
- School Employees Fund Adjustments are increased by \$26,781,000 to reflect a projected increase in benefit payments from the School Employees Fund.
- Workforce Investment Act Adjustments are decreased by \$1,242,000 to reflect a projected decrease in state operations for the Consolidated Workers Program under the Workforce Investment Act (WIA). It is requested that Local Assistance funding be reduced by \$7,646,000, to reflect a reduction in local assistance for the Consolidated Workers Program under the WIA.

STAFF COMMENT

These May Revision proposals are purely technical in nature.

CONSENT ACTION

Adopt May Revision Proposals.

ITEM 8940 MILITARY DEPARTMENT

ISSUE 1: APRIL 1 FINANCE LETTER

It is requested that Item 8940-001-0001 be increased by \$432,000 and Item 8940-001-0890 be increased by \$659,000 to provide ongoing funding for the congressionally-mandated State Active Duty employee compensation increase, effective January 1, 2005.

It is requested that Item 8940-001-0604 be added to appropriate \$1.5 million from the Armory Fund to allow the Military Department to complete necessary repair projects at various armories throughout the state. It is further requested that language be added to make the appropriation available for encumbrance during fiscal years 2005-06 and 2006-07.

CONSENT ACTION

Adopt April 1 Finance Letter.

ITEMS TO BE HEARD

ITEM 0840 STATE CONTROLLER

The Governor's May Revision budget request includes the following proposals for the State Controller's Office (SCO):

ISSUE 1: APPORTIONMENT PAYMENT SYSTEM AND CONTROL SECTION 25.50

Reappropriation

The January budget included \$1.685 million (special funds) to continue this ongoing project to update the Controller's payment system for apportionments of various revenues to local governments. The May Revision requests the addition of Item 0840-490 to reappropriate the unencumbered balance of any funds appropriated by Control Section 25.50, Budget Act of 2004, for the Apportionment Payment System project (\$579,000 was the amount originally appropriated—all from special funds). The project is currently scheduled to award the vendor contract on June 8, 2005, at which time a payment will be due. If there is a vendor protest, the award date will be pushed into 2005-06, and this funding will be needed in 2005-06.

Reallocation of Funds

The May Revision requests that Control Section 25.50 be amended to reflect the reallocation of charges among special funds for the Apportionment Payment System. The charges were reallocated among the special funds to reflect more recent 2003-04 data for apportionment payments and the changes made to the allocation of Vehicle License Fee revenue in the Local Government Agreement enacted with the 2004-05 Budget and the approval of Proposition 1A. Overall funding for the project is unchanged. The subcommittee discussed the need for this reallocation at its April 26th hearing.

COMMENTS

No Issues have been raised regarding these proposals.

ISSUE 2: 21ST CENTURY PROJECT AND CONTROL SECTION 25.25

The May Revision requests that a portion of the funding provided in Control Section 25.25 be shifted from Personal Services to Operating Expenses and Equipment (OE&E). The Human Resources Management System (the 21st Century Project) is approximately six months behind schedule. As a result, the SCO will not need seven positions in 2005-06 and certain OE&E costs will be pushed out to future years. In addition, the bid for the software portion of the project came in significantly below estimates. Due to these factors, SCO will now pay for the software license and one year of maintenance in full in 2005-06, rather than financing these costs over six years as originally planned. Overall funding for 2005-06 is unchanged and is entirely from special funds.

COMMENTS

Higher 2006-07 General Fund Cost. The General Fund will begin contributing to the cost of the project in 2006-07. The May Revision letter notes that those General Fund costs, which were originally assumed to be vendor financed, will instead be paid as costs are incurred. This will result in higher General Fund costs in the next three years, but will eliminate financing costs and thus reduce the overall cost of the project. The May Revision estimates that General Fund costs in 2006-07 will be \$15.3 million; this is about twice the amount of General Fund cost previously estimated for 2006-07.

- The SCO should explain to the subcommittee why it has changed its plans for vendor-financing.

ISSUE 3: AB 3632 MENTAL HEALTH MANDATE AUDITORS

The May Revision requests \$468,000 (General Fund) to add five 2-year limited term positions to audit county mandate reimbursement claims for the costs of services to Handicapped Students and Seriously Emotionally Disturbed Pupils (the AB 3632 program). In addition, the SCO plans to redirect three positions for these mandates

COMMENTS

On April 26th, the subcommittee acted to add 11 positions to the SCO for mandate claims audits. Therefore, there is no need to add any additional staff for this request. Some of the positions already added can be used to audit AB 3632 claims to the extent that they represent the best audit opportunities. Therefore, it would be redundant to also adopt this augmentation.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Governor's May Revision budget request includes the following proposals for the Department of Housing and Community Development (HCD):

ISSUE 1: GOVERNOR'S INITIATIVE TO ADDRESS CHRONIC HOMELESSNESS/OPEN ISSUE ON EMERGENCY HOUSING ASSISTANCE PROGRAM (EHAP)**EHAP.**

Previously, the subcommittee placed restoration of the Governor's Budget reduction in EHAP funding on its list of potential actions to be considered with the May Revision. Restoration of these funds for operating grants for homeless shelters will cost \$864,000 (General Fund).

May Revision Request for Governor's Homelessness Initiative

The May Revision includes the following requests for efforts to address homelessness among the mentally ill:

- \$750,000 (General Fund) to provide local assistance grants to be used to provide loans for predevelopment costs associated with projects designed to house mentally ill homeless persons.
- \$250,000 (General Fund) to provide funding for the Governor's Interagency Council on Homelessness. The Governor's Interagency Council on Homelessness will work to coordinate efforts between state agencies, local governments and non-governmental organizations to eliminate chronic homelessness.
- Trailer Bill Language to redirect up to \$40 million in unused funds from existing housing bonds and \$10 million from the California Housing Finance Agency (CalHFA), along with seed money from funding from the income tax surcharge imposed by Proposition 63, the Mental Health Services Act (MHSA), to create 400-500 units of permanent housing with services for chronic mentally ill populations.

COMMENTS**LAO Recommendations**

The Legislative Analyst's Office (LAO) makes the following recommendations regarding this proposal:

Reject Council Funding. LAO recommends rejecting the \$250,000 requested for the Governor's Interagency Council on Homelessness. The LAO believes that these General Fund dollars can be better used for the budget bottom line or for direct homeless assistance (restoring EHAP funding). There is no reason why the state departments cannot coordinate their activities through existing administrative resources. This type of coordination should be expected of departments as part of their day-to-day operations.

Other Funding Sources for Predevelopment Loans. LAO concurs with the administration that predevelopment loans would be useful to help prepare housing projects for construction. LAO, however, recommends replacing General Fund support with other available funding sources. Specifically, the existing HCD Predevelopment Fund would have some funding available to redirect for this purpose. In addition, LAO points out that predevelopment would be an eligible activity for the 5 percent of Proposition 63 mental health funds set aside for administration. Funding from this source could be made available through Budget Bill Language in the Department of Mental Health item.

Prop. 46 Housing Bond Funds Already Available. The administration is proposing to redirect Proposition 46 housing bond funds designated for housing preservation. However, Proposition 46 also designated money for supportive housing, including the type of mentally ill housing projects that are proposed. LAO indicates that the supportive housing allocation has an estimated \$117 million available and HCD could issue a mentally ill-focused notice of funding using existing authority at any time. On the other hand, the preservation funding has only an estimated \$22 million available (this amount has a 30-month limit and will transfer to the main multifamily housing program shortly). LAO asks why make changes at this time when a source of funding approved by the voters is already available? Consequently, LAO recommends not adopting the proposed TBL because HCD can proceed using existing authority.

Staff Comments. Based on the LAO's recommendations, there is no need to adopt any General Fund augmentations or Trailer Bill Language to carry out the proposed program in 2005-06. Budget Bill Language for the Department of Mental Health would provide backup authority to use Proposition 63 Mental Health funds for predevelopment loans should HCD's existing predevelopment loan funds prove insufficient.

ISSUE 2: OTHER MAY REVISION PROPOSALS

The May Revision also includes the following additional requests:

Community Development Block Grant – Disaster Recovery—\$10.3 million (federal funds).

It is requested that Item 2240-001-0890 be increased by \$211,000, Item 2240-101-0890 be increased by \$10,337,000, and that Items 2240-001-0001 and 2240-101-0001 be amended to reflect these changes, to administer federal grants that have become available through the federal Department of Housing and Urban Development to address recovery efforts related to the Southern California wildfires, San Simeon earthquake, and the San Joaquin levee break.

Unused Portion of California Homebuyer Downpayment Assistance Program (CHDAP) Funds from California Housing Finance Agency (CalHFA). \$1.7 million transfer to the General Fund—

It is requested that Item 2240-113-0813 be added in the amount of \$1,670,000 to transfer the unused portion of the CHDAP money provided for use to the CalHFA under Provision 4 of Item 2240-103-0001 of the Budget Act of 2000 back to the General Fund. CalHFA originated over \$25.0 million in loans under this provision before balances for the program were reverted to the General Fund. An amount was retained in the program to complete contractual obligations and commitments to fund Self-Help Housing. Those obligations have been completed and can now be funded from Proposition 46 down payment assistance funds.

Eliminate Regional Housing Needs Assessment Mandate Language—It is requested that Item 2240-295-0001 be eliminated from the budget. This item included the suspension of the Regional Housing Needs Assessment Mandate, which was determined by the Commission on State Mandates on March 30, 2005 to no longer to be reimbursable. This issue also was previously heard by the subcommittee and currently remains open.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**ISSUE 1: NURSING EDUCATION INITIATIVE**

The May Revision includes a \$10 million for a Nursing Education Initiative.

COMMENTS

The May Revision includes \$10 million (\$5 million General Fund) for a new Nursing Education Initiative. The proposal would fund grant programs aimed at increasing nurse education capacity and increasing the number of California Community College nursing students that complete their studies. These programs would include:

- 1. Educational Loan Repayment For Students that Commit to Serve as Faculty**
Nursing schools lack the number of qualified faculty members necessary to teach the number of students interested in nursing. Without enough faculty members, nursing programs are forced to turn away thousands of applicants to nursing programs each year. One reason for the lack of faculty is that nurses can earn twice as much by working in a hospital than in an academic institution. This project offers loan forgiveness for Master's prepared nursing students to make faculty positions more attractive. \$2.5 million General Fund is proposed for loan forgiveness, up to \$25,000 per recipient, to up to 100 Master's of Science in Nursing students that are interested in teaching in nursing programs. These funds will be made available through a loan repayment agreement administered by EDD. California Education Code requires a 1 to 10 faculty to student ratio. Adding 100 additional faculty members in nursing programs would therefore open spaces for as many as 1,000 additional nursing students each year.
- 2. Regional Clinical Simulator Grants.** Nursing programs lack the space and equipment to offer clinical training. Regional simulation laboratories can be created so that numerous nursing programs in one area can share lab space, which, in turn, opens up more clinical training slots for nursing students. A regional collaborative comprised of public educational institutions, health care providers, first responders and/or government entities can run each regional simulation lab. The Board of Registered Nursing would be in a consultative role as the collaborative develops and would serve as an oversight body relative to the curriculum and the use of the simulators. A total of \$2.5 million General Fund is proposed to develop nine regional collaboratives that will allow for the expansion of existing nursing programs within the collaborative by 25 percent. The collaborative partners provide for the space and the on-going faculty for the laboratory and other expenses necessary for the operation. A total of nine grants, up to \$275,000 each, will be awarded based on collaboration with other schools, development of a sustained business case, schools' readiness to accept the simulation and ability to expand educational capacity. EDD is proposed to administer the grants.
- 3. Nursing Pre-Apprenticeship Programs.** As many as 20 percent of nursing students drop out of programs due to inadequate preparation or personal circumstances. High school students and graduates should have more opportunities to participate in rigorous

academic training that will prepare them to succeed in college nursing programs. Pre-apprenticeship programs can be created for high school students, incumbent workers, and recently unemployed workers interested in pursuing nursing careers. Students can take rigorous science and math coursework that would serve as pre-requisites to nursing programs. Schools partner with a local health care provider so that students can participate in internships and job shadowing opportunities. Under this proposal, pre-apprenticeship opportunities in nursing would be made available to underserved populations. Up to 1,000 individuals could participate in pre-apprenticeship programs, at a cost of \$5,000 each to be allocated by the Employment Training Panel.

In addition to the three items above, the Administration has proposed to allocate \$18 million annually for 5 years (\$6 million of WIA 15 Percent Funds, \$6 million CCC local Prop 98 funds, and \$6 million private/nonprofit match requirement) to increase capacity in the state's nursing programs.

In addition to the funding, the May Revision includes Trailer Bill Language for the three proposed grant reductions.

COMMENTS

The Subcommittee has discussed the need for more nursing training during its April 12th and May 3rd hearings.