

PART I**AGENDA
SUBCOMMITTEE No. 4
ON STATE ADMINISTRATION****ASSEMBLYMEMBER JUAN ARAMBULA, CHAIR****THURSDAY, MAY 17, 2007
STATE CAPITOL, ROOM 447
1:30 P.M.****PROPOSED CONSENT CALENDAR**

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Please Note: The Secretary of State, the State Controller, and the Public Employees Relations Board will be heard next week.

CONSENT CALENDAR

0100 LEGISLATURE

The budget for the Legislature needs to be updated to reflect the latest SAL information. The update is as follows:

0110-001-0001 - For support of Senate.....		108,844,000	107,556,000
Schedule:			
(1) 101001-Salaries of Senators.....	—6,282,000	6,208,000	
(2) 317295-Mileage.....	11,000		
(3) 317292-Expenses.....	—1,499,000	1,480,000	
(4) 500004-Operating Expenses.....	-100,217,000	99,022,000	
(5) 317296-Automotive Expenses.....	835,000		
0120-011-0001 - For support of Assembly.....		147,700,000	145,952,000
Schedule:			
(1) 101001-Salaries of Assembly Members.....	11,247,000		
(2) 317295-Mileage.....	8,000		
(3) 317292-Expenses.....	3,045,000		
(4) 500004-Operating Expenses.....	-132,541,000	130,793,000	
(5) 317296-Automotive Expenses.....	859,000		
0130-021-0001 - For support of Office of the Legislative Analyst.....			0
Schedule:			
(1) Expenses of the Office of the Legislative Analyst....	7,284,000	7,200,000	
(2) Transferred from Item 0110-001-0001.....	-3,642,000	-3,600,000	
(3) Transferred from Item 0120-011-0001.....	-3,642,000	-3,600,000	

Staff Recommendation: Approve updated proposal.

0150 LEGISLATORS' RETIREMENT SYSTEM

Established in 1947, the Legislators' Retirement System provides retirement and death benefits for Legislators, Constitutional Officers, and Legislative Statutory Officers.

Proposition 140, approved by the voters in 1990, prohibits legislators taking office for the first time after November 6, 1990, from participation in the Legislators' Retirement System.

The Governor's proposed budget includes \$8.6 million for the Legislators' Retirement System.

Staff Recommendation: Approve as budgeted.

0160 LEGISLATIVE COUNSEL BUREAU

The Legislative Counsel Bureau provides legal assistance to the two houses of the Legislature, their members and its committees by resolving a large volume of complex legal problems arising in connection with the legislative process. The legal services furnished include rendering opinions, drafting bills, counseling, attendance as counsel at meetings of legislative committees, and representing the Legislature in litigation. The attorney-client relationship is maintained and all work is confidential.

In addition, the Bureau prepares and provides necessary indices and appropriate tables necessary to identify legislative measures and compiles and indexes statutes and codes.

The Bureau operates the Legislative Data Center, which provides information technology services in support of the legislative information system and the processing of legislative measures.

The Governor's proposed budget includes \$87.3 million for the Legislative Counsel Bureau.

Staff Recommendation: Approve as budgeted.

0500 GOVERNOR'S OFFICE

The Governor's proposed budget includes \$19.7 million for support of the Governor's Office.

Staff Recommendation: Approve as budgeted

0750 LT. GOVERNOR'S OFFICE

The Governor's proposed budget includes \$2.9 million for the Lt. Governor's Office.

The Administration submitted a Spring Finance Letter requesting an increase of \$290,000 for information technology upgrade (\$100,000) and for an augmentation for the Commission for Economic Development (\$190,000).

Staff Recommendation: Approve with the updated Spring Finance proposals.

0950 STATE TREASURER'S OFFICE

ISSUE 1: SPRING FINANCE LETTERS (INCLUDING 0968)

The Administration submitted a Spring Finance Letter requesting an additional \$403,000 in reimbursement authority for four new positions to address additional workload related to bond issuance and interim financing in the Public Finance Division.

The Administration also submitted a Spring Finance Letter requesting an increase of \$567,000 for the Tax Credit Allocation Committee for workload associated with federal compliance monitoring requirements.

Staff Recommendation: Approve Spring Finance Letters.

ISSUE 2: MAY REVISION PROPOSAL: SUPPORT INCREASE

The Governor's May Revision includes an increase of \$720,000 (\$216,000 General Fund, \$504,000 reimbursements) for support of the Treasurer's Office. The funding is intended to enable the office to operate at full capacity and provide high quality banking services for the state.

Staff Recommendation: Approve May Revision Proposal.

1880 STATE PERSONNEL BOARD

The State Personnel Board (SPB) is responsible for California's civil service system. The SPB provides a variety of recruitment, selection, classification, goal setting, training and consultation services to State departments and local agencies. The Board is composed of five members, who are appointed by the Governor, and serve 10-year terms.

The Governor's proposed budget includes \$23.9 million (\$5.5 million General Fund) for SPB.

There are no Spring Finance Letters or May Revision proposals for SPB, however, the proposed budget should be approved with the following changes:

- ◆ A reduction of \$794,000 and nine positions that were proposed for SPB to implement a portion of the FISCAL project. This subcommittee rejected the main proposal for FISCAL at an earlier hearing, so this reduction is needed to conform with that action.
- ◆ A reduction of \$482,000 and three positions to deny the proposed Centralized Internship Program. This proposal was to begin implementation with placing science and engineering students with the California Environmental Protection Agency (CalEPA), but CalEPA has sense withdrawn support for the project. The Senate rejected this proposal on this basis, and the Administration can revise the proposal for next year.

Staff Recommendation: Approve the budget for SPB, with the two changes listed above.

1900 CALPERS

ISSUE 1: SPRING FINANCE LETTER

The Department of Finance submitted a Spring Finance Letter requesting the following for CalPERS:

Health Research and Information Systems Cost Avoidance. Requests an increase of \$552,000 and four positions to support program changes that CalPERS indicates will result in cost avoidance of over \$5 million per year. The new positions would align CalPERS health information systems with internal and external electronic trading partners to improve transactional efficiencies. The savings would be achieved through Kaiser health premium surcharge reductions, a reduction in claims costs that are paid by the state but could be paid by the federal government, system efficiencies, tighter quality control measures, and claims retroactivity reduction.

Medicare Part B Positions. Requests a budget augmentation of \$659,000 (Contingency Reserve Fund) and 5.0 permanent positions to support on-going activities with the processing of Medicare Part B Income Related Monthly Adjustment Amount reimbursements. Effective January 1, 2007, the Social Security Administration implemented new rules for the calculation of Medicare Part B premiums, which are based on individual annual incomes rather than a flat rate as was done in the past. PERS indicates that the additional 5.0 positions are needed to address workload associated with the program change.

Medicare Part D. Requests a budget adjustment to shift expenditure of \$509,000 for 5.5 positions from the Special Deposit Fund to the Contingency Reserve Fund.

Staff Recommendation: Approve as budgeted.

1920 STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 1: MAY REVISION REAPPROPRIATION PROPOSAL

The Governor's May Revision includes a proposal to reappropriate up to about \$3.5 million in order to meet unanticipated system costs and promote better services in the system's membership.

Staff Recommendation: Approve as budgeted.

8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

ISSUE 1: SPRING FINANCE LETTER

The Administration submitted a Spring Finance Letter requesting:

- ◆ \$2.8 million to develop and implement the Human Resource Modernization Project.
- ◆ \$1 million to contract with a private industry "head hunter" to assist the state with recruiting psychiatric and medical services within state institutions.
- ◆ Reduction of \$2.4 million for the Rural Health Care Equity Program, which provides health care subsidies for employees and retirees in areas of the state not served by HMOs. Blue Shield HMO has expanded to Humboldt County, which means residents of that county are no longer eligible for the subsidy.

Staff Recommendation: Approve Spring Finance Letter

8860 DEPARTMENT OF FINANCE

ISSUE 1: OFFICE OF TECHNOLOGY REVIEW, OVERSIGHT, AND SECURITY

Subcommittee #5 took action on the Governor's proposal for the Office of the Chief Information Officer (OCIO), including rejecting the Governor's proposal to move the Office of Technology Review, Oversight, and Security from the Department of Finance to the OCIO.

Subcommittee #4 should conform with the action of Subcommittee #5.

Staff Recommendation: Conform with Subcommittee #5.

ISSUE 2: SPRING FINANCE LETTER: TECHNICAL ADJUSTMENTS TO SALARIES AND WAGES

The Administration submitted a Spring Finance Letter requesting an increase of \$613,000 for technical adjustments to salaries and wages and to adjust programmatic scheduling.

Staff Recommendation: Approve Spring Finance Letter.

ISSUE 3: MAY REVISION PROPOSAL: PUBLIC EMPLOYEE POST-EMPLOYMENT BENEFITS COMMISSION

The Governor's May Revision includes an increase of \$654,000 to provide funding for support of the Public Employee Post-Employment Benefits Commission that the Governor established through executive order to propose options for addressing growing pension and retiree health care obligations.

Staff Recommendation: Approve May Revision Proposal.

9615 & 9934 PENSION OBLIGATION BOND

ISSUE 1: MAY REVISION PROPOSAL – POB POSTPONEMENT
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The Governor's May Revision reflects the postponement of the Pension Obligation Bond originally approved in 2004 until the 2008-09 budget year. This is the result of the Administration believing the POB will not clear all legal challenges during the budget year. This results in an additional \$535 million problem to the General Fund.

The May Revision proposal is needed to update the budget to reflect the postponement.

Staff Recommendation: Approve May Revision Proposal.

9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

ISSUE 1: MAY REVISION PROPOSAL – UPDATED BUDGET PROPOSAL

The Governor's May Revision includes an increase of \$73.4 million to fund Health and Dental Benefits for Annuitants to support a 10 percent increase and to fund the recent enrollment increase for health benefits for annuitants. The proposal also includes budget bill language requiring reports regarding future health care premium increases that exceed recent assumptions.

Staff Recommendation: Approve May Revision Proposal.

9800 AUGMENTATION FOR EMPLOYEE COMPENSATION

ISSUE 1: MAY REVISION PROPOSAL – UPDATED BUDGET PROPOSAL

The Governor's May Revision includes updated figures to accurately reflect revised estimates pursuant to existing bargaining unit agreements, including a net increase of \$27.1 million from the General Fund and a net decrease of \$2.1 million from other funds.

Staff Recommendation: Approve as budgeted.

9955 EMPLOYEE COMPENSATION REFORM

This budget display has been included in the Governor's budget to report savings that result from employee compensation reforms. Currently, the savings reflected in this budget display are due to the Alternate Retirement Program, which was enacted with the Budget Act of 2004.

Staff Recommendation: Approve as budgeted

CONTROL SECTION 3.60

The Governor's May Revision includes changes to Control Section 3.60 to reflect changes in the state's retirement contributions and to reflect the change to the fourth quarter deferral payment for CalPERS. This will have a slight cost of \$1 million from the General Fund and a decrease of \$23 million for other funds.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD**1900 PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

ISSUE 1: MEDICARE PART D

The Governor's proposed budget includes \$38 million in federal government reimbursements associated with Medicare Part D and proposes these funds be use to offset state retiree healthcare costs. This is achieved through Budget Bill Language and results in a \$38 million savings to the General Fund.

The reimbursements are a Retiree Drug Subsidy (RDS) provided as part of the Medicare Part D program to provide incentives for employers to continue to provide prescription drug benefits.

COMMENTS

CalPERS, has concerns with the Governor's proposal. According the LAO Analysis, some CalPERS board members feel the funds should be allocated, as they deem appropriate, and not the Legislature. The LAO reports that these members would rather see the funds be used to offset the out-of-pocket healthcare expenses of retirees rather than to offset the costs to the state.

The LAO recommends approving the Governor's proposal on the basis that the RDS funds are intended to reduce employer costs and to help employers continue to afford to pay the benefits.

(The Health and Dental Benefits for Annuitants budget will conform to action on this item).

ISSUE 2: MAY REVISION PROPOSAL

The Governor's May Revision includes an updated proposal for CalPERS.

There are two parts to the May Revision letter:

- ◆ Technical update to the state budget to reflect the CalPERS budget approved by their board.
- ◆ Proposed budget bill language to require CalPERS to report when they adopt health care premium increase that exceed the assumptions as reported in the annual other post-employment benefits actuarial valuation for the State Controller's Office.

COMMENTS

The proposed budget bill language is intended to keep the unfunded liability of retiree health care cost from exceeding the recent actuarial study done for the State Controller. Should the annual premium for the state increase, the report would have to identify what CalPERS would do in the next two fiscal years to bring the state back into conformance.

1920 STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 1: PURCHASING POWER PROTECTION & GENERAL FUND SAVINGS

The Governor's proposed budget includes a savings of \$75 million ongoing by reducing the state's contribution to the Supplemental Benefit Maintenance Account (SBMA) from 2.5 percent to 2.2 percent. The Administration believes the 2.2 percent contribution will be sufficient to maintain the current 80 percent purchasing power protection and retire any unfunded liabilities within 30 years.

In order to achieve this reduction, the Governor proposes to vest the purchasing power protection at 80 percent of an individual's initial retirement allowance.

COMMENTS

The LAO recommends the proposal be rejected because of the risk of adding an additional vested benefit that could potentially lead to significant increase costs should the cost of meeting the 80 percent purchasing power protection exceed 2.2 percent. This could happen should there be long periods of high inflation.

In addition, STRS is concerned about the proposal for a number of reasons including the pressure the STRS would be under to raise employee contributions should the state not increase contributions to maintain the 80 percent level should a 2.2 percent contribution not be sufficient. STRS is also concerned about the state's fiscal condition should state need to make significant increased contributions in the future to maintain the 80 percent level.

While there is always some level of risk, a STRS actuarial analysis indicates the Governor's proposal has a 68 percent chance of saving the state money and a 32 percent chance of increasing state costs.

This proposal should also be considered in the context of the larger budget picture. The Governor proposes cuts that could through as many as 190,000 underprivileged children off aid, cuts SSI/SSP benefits, increases student fees, and diverts public transit funds. The ability to restore any of these cuts gets even more difficult, if this proposal is not approved.