

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

Assemblymember Juan Arambula, Chair

**MONDAY, MAY 18, 1:30 PM
STATE CAPITOL, ROOM 447**

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VOTE ONLY

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CONSENT CALENDAR

Dep.	Proposal
CalEMA	April Letter: Tsunami Program. \$603,000 Federal Trust Fund authority to receive funds from the National Oceanic and Atmospheric Administration.
	April Letter: Transit Security Bond. \$1.1 million in bond fund authority to administer the Transit System Safety, Security, and Disaster Response Account Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006.
	April Letter: Transfer of Office of Gang and youth Violence Policy. Transfer of \$10.7 million (\$1.2 million General Fund and \$9.5 million Restitution Fund). This transfer is from the OPR.
	April Letter: Southern Regional Facility. \$1.9 million Federal Trust Fund authority for preliminary plans.
	Trailer Bill Language. Nuclear Planning Program.
	Trailer Bill Language. Disaster Services Workers.
CDCR	Trailer Bill Language. Youthful Offender Block Grant Reporting Requirements.
	Budget Bill Language. Overtime reporting requirements.
	Budget Bill Language. Population budgeting methodology.
Department of Justice	April Letter: Southern Regional Facility. \$3.1 million to increase the Bureau of Medical Fraud and Elder Abuse's efforts to investigate and prosecute False Claims Act Workload. This proposal includes budget bill language outlining reporting requirements.
Veterans Affairs	GLAVC Veterans Homes Activation Phase III. Reduce the requested resources by \$5 million General Fund in recognition of an approximately three-month delay in construction and associated delays in hiring.
	Trailer Bill Language. Establish Adult Day Health Care fee.
Office of Planning and Research	Transfer of Office of Gang and youth Violence Policy. Transfer of \$10.7 million (\$1.2 million General Fund and \$9.5 million Restitution Fund). This transfer is to the CalEMA.
	Technical Adjustment. \$572,000 General Fund decrease due to technical error and addition of reversion item to capture current year savings (\$521,000).
Public Utilities Commission	Outside Legal Counsel and Economic Consulting. \$2.5 million (PURA Funds) to contract outside legal counsel and economic consultants to aid the state in ongoing litigation by the CPUC before the Federal Energy Resources Commission.
Horse Racing Board	2009 Governor's Budget Approval – Approve workload and policy adjustments that were built in to the 2009-10 Governor's Budget for the CHRB.

CONSENT ITEMS

ITEM 2320 DEPARTMENT OF REAL ESTATE

ISSUE 1: BUDGET CHANGE PROPOSAL TO RELOCATE

The Department requested a one-time augmentation in the amount of \$1 million to relocate and consolidate both the Sacramento Headquarters Office and Examination Center. Both are currently located in downtown Sacramento adjacent to one another with a total rent of \$938,000 per year. The lease at the current location is up this year. The BCP estimates the annual rent at the new facility to be \$2.6 million per year, although the Department indicated that they have received lower estimates not indicated in the BCP. The reasons for moving include: construction and safety concerns, ADA compliance issues, inadequate space, and several other miscellaneous issues.

COMMENTS

The Real Estate Fund (RE Fund) is the Department's main source of support. The RE Fund derives most of its revenues from real estate license and application fees as well as fees charged to those wishing to subdivide lands. The RE Fund's revenues have declined sharply due to a number of reasons: the real estate market has declined substantially; access to real estate license examinations has become more difficult, and \$10.9 million was loaned to the General Fund from past RE Fund reserves.

The Department has taken steps to remedy the RE Fund condition by administratively raising all of their fees to statutory maximums. They have also been in discussion with Department of Finance to be repaid the \$10.9 million loan. However, even after accounting for these two potential fund condition remedies, the fund will become insolvent in 2013-14. Without accounting for the GF loan repayment the fund will become insolvent in 2012-13.

DRE's current facility is deteriorating and relocation would address their concerns. However, relocating their facility would not only require the one-time augmentation of 1 million dollars to cover moving expenses, but also a recurring annual increase of \$1.5 million for rent, according to the BCP.

Vote Only

Dep.	Proposal
CalEMA	Trailer Bill Language w/ Revision. Emergency Response Initiative Trailer Bill with revision to increase surcharge to 4.8 percent.
	Wildland Firefighting Engine Fleet. Purchase an additional 131 engines over five years for the CalEMA fleet. The cost for this proposal is about \$13 million annually for five years, which includes six additional staff to manage the expanded fire engine fleet.
	Addition of Staff at Regional Offices. \$3.2 million (\$1.6 million federal funds and \$1.6 million Emergency Response Fund) for 19 additional positions spread through region offices to improve the state's response in an emergency.
	Administration of the Emergency Response Fund. \$650,000 to administer the Emergency Response Fund.
	Law Enforcement Mutual Aid Support. \$560,000 to provide two regions with Law Enforcement Coordinators.
	Study of Goods Deployment. \$500,000 to study how to store, manage, and transport critical goods immediately after an emergency or disaster event.
	California State Warning Center. \$181,000 for one additional supervisor for Warning Center staff.
	State Emergency Command Center. \$155,000 to reimburse CalFire for an additional full time fire captain at the State Emergency Command Center.
Military Department	Aviation Firefighting Equipment. \$2.2 million for aviation firefighting equipment to improve response capabilities.

ITEMS TO BE HEARD

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: EMERGENCY HOUSING ASSISTANCE PROGRAM (EHAP)

The Emergency Housing Assistance Program (EHAP) provides facility operating grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families.

As discussed at the March 25th hearing of Subcommittee 4, last year the Governor proposed a budget balancing reduction of \$401,000 resulting in a 10 percent reduction of state contributions, estimated to be equivalent to 1,900 beds. The Legislature chose to restore that cut through the budget process. The Governor, however, vetoed the restored funding as well as vetoing the entire state contribution to emergency housing facilities (an additional \$3.6 million cut). The state, prior to last year, provided approximately 10 percent of the overall funding for local homeless shelters. Based on the departments 1,900 bed estimate for the original BBR, it would suggest 19,000 beds would be eliminated by the Governor's \$4 million reduction.

At that hearing we heard from Housing California, an advocate for increasing the supply and variety of decent, safe, and affordable homes for homeless and low income families, about the survey they conducted showing a dramatic reduction in service at emergency shelters throughout the state. Results showed:

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

COMMENTS

Since hearing this issue on March 25th, the homeless situation in California has continued to worsen. April 28th the Sacramento Bee reported that all beds were filled to capacity. May 7th the Bakersfield Homeless Shelter reported the same, and shelters around the state are facing the same problems.

To make matters worse, the extreme budget problems being experienced by local governments throughout the state are putting the existing overcrowded facilities at risk. Sacramento County's budget proposal includes the closure of three shelters to help fill their budget hole.

Veterans are of particular concern with this growing demographic of homeless. Often homeless veterans have special needs and can benefit from services targeted to them, as well as companionship from other veterans in similar situations who can better relate to their special needs. While veterans are welcome at all homeless shelters, there is also the potential to improve the effectiveness of these funds by prioritizing some funding for shelters with the ability to serve the special needs of veterans. The Subcommittee may wish to consider adopting language to such effect.

ISSUE 2: EMPLOYEE HOUSING PROGRAM

The purpose of the Employee Housing Program is to safeguard the health and safety of persons occupying employee housing and the community where employee housing facilities have been established.

Last year the Governor proposed a budget balancing reduction of \$85,000, achieved by a reduction in investigation staff (2/3 of a position). The Legislature expressed a concern that investigation levels were already inadequate, and further reductions would only exacerbate the problem. In addition to General Fund dollars, the program is funded by fees imposed on the employers providing the housing. The fees range from \$12 to \$35 and have not been adjusted since approximately 1982. As such, the Legislature's approved budget reduced General Fund expenditures, but increased the fees by an equivalent amount in order to backfill the lost General Fund revenues (approximate fee increase of 36%).

The final budget, however, included the Governor's veto of not only the \$85,000 in increased fees, but a complete elimination of general fund revenue for the program (\$761,000 additional reduction). This left only minimal funding from the existing fees (approximately \$231,000). With minimal funding, HCD could only provide emergency services.

<i>Housing and Community Development Employee Housing Program Number of Employee Housing Units - Statewide Calendar year</i>								
	2007	2006	2005	2004	2003	2002	2001	2000
<i>Number of beds/lots</i>	19,621	18,991	18,802	20,594	22,979	23,117	23,652	12,500
<i>Number of Permit to Operate</i>	765	775	761	810	837	1,114	1,077	694

Data taken from the Employee Housing Statistical report

The Governor's proposed 2009-10 budget continued to eliminate all General Fund support, but went one step further and eliminated the fee's on employers providing housing, and completely eliminated the state's role in inspecting their facilities.

The Governor's proposal would instead rely on local governments to provide these inspections. Counties are currently authorized to provide this service instead of HCD, and they can also charge higher fees than HCD for providing such services. Currently only 10 counties have elected to do so (Kern, Merced,

Monterey, Napa, Sacramento, San Joaquin, San Mateo, Santa Cruz, Stanislaus, and Tulare). Though the counties may charge higher fees, that is not typically the case. Five counties charge the same per employee fee of \$12, with the highest fee at \$20. Four counties charge the same permit to operate fee, 3 more are under \$50, with only Monterey (\$77), Tulare (\$200) and Santa Cruz (\$362) significantly above the HCD fee level.

Under existing law, HCD is required to inspect all employee housing facilities unless the prior year inspection revealed no violations or complaints received. Based on these requirements, HCD inspects approximately 75 percent of the permitted facilities. As discussed below, this statute could be modified to decrease the number of inspections required each year by prioritizing more high risk facilities.

COMMENTS

The LAO highlights that there are alternatives to the Governor's proposed elimination of the employee housing program. Those alternatives include shifting responsibilities to local governments, increasing permit fees to cover the full cost of the program, or scaling down the inspection program.

While shifting responsibilities to locals would eliminate all state requirements, it does raise potential concerns. Local governments often do not have the expertise in conducting these inspections as does HCD. Case in point:

Tulare County Resource Management Agency program received an "improvement needed" with substantial deficiencies observed. Deficiencies noted:

- Applications for Permits to Operate had no dates to confirm when the renewal forms were sent.
- Records do not account for numerous missing, but paid for, Permits to Operate, nor do they show if these facilities were inspected.
- Only two out of 28 facilities found to be operating without a permit were inspected.
- As a result of the low number of violations cited compared to the number of older facilities, it was recommended that additional monitoring and training be conducted to insure compliance with applicable Sections of the Health & Safety Code.

While the state could transfer responsibility to locals, and maintain an oversight function, staff points out the inherent inefficiency in running both state and local programs each requiring separate fees.

At the March 25th hearing where this item was previously discussed, the Subcommittee requested more information on options for scaling down the number of inspections conducted each year in order to reduce the necessary fee increase to maintain the state level inspection program. This data was provided and is shown in appendix A.

The data is based on 447 facilities throughout the state, and 14,160 beds/lots. HCD would prioritize response to all complaints, issue all permits to operate, and then provide further inspections as specified on the chart. The first row on the chart is the program as it existed prior to the Governor's Veto. The fees shown in that row were last adjusted over two decades ago.

As a frame of reference, there are ten counties who currently choose to run their own "local enforcement agency" (LEA) using their existing fee authority. Five of those counties charge the same per employee fee as the state (\$12) with the highest per bed fee at \$20. Only four counties charge the same "permit-to-operate" fee as the state (\$35), 3 charge less than \$50, and only Monterey County (\$77), Tulare County (\$200), and Santa Cruz County (\$362) are above that.

The Subcommittee expressed an interest in funding a scaled back program through fees, but also expressed some concern that a significant fee increase could push employers out of the program, thus decreasing the available space for employees rather than protect those employees. HCD was not able to provide an assessment of the ability of employers to pay the various proposed fee levels.

If the Subcommittee wishes to provide for a prioritized statewide inspection program through fees, staff would recommend determining a minimal level of acceptable inspection, and select that option in order to minimize the necessary fee increase. Staff would recommend consideration of the bottom 25 percent inspection option, requiring a total permit-to-operate fee of \$200 and a per bed fee of \$27.

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Appendix A – Employee Housing Program Scenarios (1 of 2)

# of Yrs between inspections	% of Housing Inspected	Annual Report .5=Yes 0=No	Monitor LEAs .5=Yes 0=No	Total # of Inspection DRs	Total # of DRs	Total # of PTs	Total # of PYs	Total Annual Cost of PYs	PTO Fee (current fee = \$35)	BL Fee (current fee = \$12)	Total Revenue Earned Annually	Difference of PY Costs and Revenue Earned
1*	75.00%	Yes	Yes	6.00	7.00	2	9.00	\$1,221,888	\$35	\$12	\$185,565	\$1,036,323
1	75.00%	Yes	Yes	6.00	7.00	2	9.00	\$1,221,888	\$900	\$58	\$1,223,580	-\$1,692
1	75.00%	No	No	6.00	6.00	1	7.00	\$984,854	\$500	\$54	\$988,140	-\$3,286
2	37.50%	Yes	Yes	3.00	4.00	1	5.00	\$685,726	\$335	\$38	\$687,825	-\$2,099
2	37.50%	No	No	3.00	3.00	1	4.00	\$536,162	\$300	\$29	\$544,740	-\$8,578
2	37.50%	No	Yes	3.00	3.50	1	4.50	\$610,944	\$325	\$33	\$612,555	-\$1,611
3	25.00%	Yes	Yes	2.00	3.00	1	4.00	\$536,162	\$300	\$29	\$544,740	-\$8,578
3	25.00%	No	No	2.00	2.00	1	3.00	\$386,598	\$150	\$23	\$392,730	-\$6,132
3	25.00%	No	Yes	2.00	2.50	1	3.50	\$461,380	\$200	\$27	\$471,720	-\$10,340
4	18.75%	Yes	Yes	1.50	2.50	1	3.50	\$461,380	\$200	\$27	\$471,720	-\$10,340
4	18.75%	No	No	1.50	1.50	1	2.50	\$311,816	\$150	\$18	\$321,930	-\$10,114
4	18.75%	No	Yes	1.50	2.00	1	3.00	\$386,598	\$150	\$23	\$392,730	-\$6,132

*Reflects historic staffing levels

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BL (Beds/Lots)	DR (District Representative)	LEA (Local Enforcement Agency)	PT (Program Technician)	PTO (Permit to Operate)	PY (Personnel Year)

ISSUE 3: FINANCE LETTER – PROPOSITION 1C RE-APPROPRIATION

The Administration requested re-appropriation of \$335 million in local assistance funds from the Infill Infrastructure Grant Program, Transit Oriented Development Program, and Building Equity and Growth in Neighborhoods Program and to extend their liquidation period by one year.

COMMENTS

These funds were appropriated last year, but the freeze on the Pooled Money Investment Account (PMIA) loan disbursements delayed many projects and appropriations. This action will allow them to utilize the funds as intended when appropriated in the 2008-09 budget.

ITEM 5225 DEPARTMENT OF CORRECTIONS AND REHABILITATION

The mission of the California Department of Corrections and Rehabilitation (CDCR) is to enhance public safety through safe and secure incarceration of offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities.

The CDCR is organized into twelve programs: Corrections and Rehabilitation Administration; Corrections Standards Authority; Juvenile Operations; Juvenile Education, Vocations, and Offender Programs; Juvenile Parole Operations; Juvenile Health Care Services; Adult Operations; Adult Parole Operations; Board of Parole Hearings; Community Partnerships; Adult Education, Vocations, and Offender Programs; and Correctional Health Care Services.

Currently there are 33 adult prisons, 13 adult community correctional facilities, and six juvenile facilities in California that house more than 170,000 adult offenders and nearly 2,000 juvenile offenders. In addition, there are more than 120,000 adult parolees and more than 2,000 juvenile parolees supervised by the CDCR.

ISSUE 1: DIVISION OF LITIGATION PREVENTION

The Office of Court Compliance was created within CDCR to facilitate compliance with several lawsuits including the *Armstrong* and *Valdivia* suits. The unit is comprised of a total of 67.0 Positions. Of those, 52.0 Positions are court ordered; including 39.0 Positions for monitoring and compliance with respect to the *Armstrong* case, and 13.0 Positions for monitoring and compliance in the *Valdivia* case. The remaining 15.0 Positions perform functions potentially related to these two cases, or any other case, or are present in the managerial structure. It is contended that the mission of this office is incomplete. The office should not simply be looking back and complying with past issues, it should be looking forward to ensure no additional situations exist that might result in additional class action suits against the state. This activity could be in the form of simply preemptively identifying cheap and easy fixes to potentially costly lawsuits and implementing them, or through complex litigation where the Department acts with the Department of Justice to ensure classes are not established.

Division of Litigation Prevention. It is proposed that the Department redirect 13.0 of the 15.0 Positions in the Office of Court Compliance, not directed by a court, to form the newly created Division of Litigation Prevention. The Department should reclassify positions and redirect resources as needed to ensure the maximum effect of this new division. While no written report is required, the Department should expect to update the Subcommittee next year on the structure and progress of the unit.

ITEM 8550 **CALIFORNIA HORSE RACING BOARD**

The purpose of the California Horse Racing Board (CHRB) is to regulate pari-mutuel wagering for the protection of the betting public, to promote the horse racing and breeding industries, and to maximize State of California revenues. The Board, which is a seven-member commission appointed by the Governor, supervises all race meetings in the state where pari-mutuel wagering is conducted. Principal activities of the Board include:

- Protecting the betting public.
- Licensing of racing associations and participants in the racing industry.
- Sanctioning licensees who violate the rules, regulations, and laws of racing.
- Allocating the racing days and charity days conducted by racing associations.
- Enforcing laws, rules, and regulations pertaining to horse racing in California.
- Acting as a quasi-judicial body in matters pertaining to horse racing meets.
- Collecting the State's lawful share of revenue derived from horse racing meets.

ISSUE 1: BUDGET BILL LANGUAGE

Senate Bill 16 (Chapter 12, Statutes of 2009). Changed the CHRB's budget by establishing 2008-09 as its baseline budget and establishing that all racing associations and fairs including all breeds of racing must participate in the funding of the CHRB in accordance with a formula devised by the board in consultation with industry. The bill provided broad discretion for the CHRB to work with the industry in developing this formula.

At a previous hearing before this Subcommittee (March 18th), the CHRB was directed to report on a variety of information regarding its historical funding and proposed funding formula pursuant to SB 16. The CHRB has proposed the following formula:

Each race pay a percentage (which would be determined on a statewide basis) of the license fees it would have generated pre SB 16 on commingled handle. The calculation would be based upon an estimate of the total license fees that would have been generated pre SB 16 during the fiscal year. The cost of board support would be divided by the projected license fee total to arrive at a percentage.

Annually:

Board Support	\$11,833,000
License Fees Pre SB 16 projection	\$32,000,000

Applicable Ratio	36.98%
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Specific Meet example:

License Fees Pre SB 16 projection	\$ 4,200,000
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Applicable Ratio	x 36.98%
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Board Support	\$ 1,553,160
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The savings realized (license fees that would have been payable less board support) would be distributed per SB 16, with 3% to breeders, 48.50% to purses and 48.50% to the track. The projection would be made as close to June 30th as possible, to facilitate the best possible degree of accuracy. The necessary calculations would be made by CHRIMS and the resulting distributions would be reflected in the demand reports.

COMMENTS

It appears that the CHRB has developed a reasonable funding approach. However, given the broad statute related to the method of CHRB funding support, staff recommends the adoption of budget bill language providing detail of the formula for board support that the CHRB has proposed.

In addition, the CHRB's proposal does not provide for a reserve should projected industry support fall short. Staff recommends the Subcommittee consider require the CHRB adjust its formula to account for a modest reserve.

Finally, racetracks owe the state approximately \$5 million due to a failure to meet required fair payments. Given the relief provided the industry by SB 16, the proposed budget bill language should address payment of this industry shortfall.