AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Juan Arambula, Chair

WEDNESDAY, MAY 21, 2008, 1:30 PM
STATE CAPITOL, ROOM 447

CONSENT CALENDAR

Vote Only Items

ITEMS TO BE HEARD

CONSENT ITEMS

ITEM 0840 STATE CONTROLLER'S OFFICE

ISSUE 1: 21ST CENTURY PROJECT

The Governor's budget proposes the expenditure of $38.3 million ($21.8 General Fund) and 70.5 limited-term positions for implementation of the 21st Century Project.

The 21st Century Project will result in an integrated Human Resource Modernization System (HRMS) to replace the existing payroll, employment history, position management, and leave accounting systems. The Controller's Office is working closely with the Department of Finance, Department of Personnel Administration, and State Personnel Board to ensure it meets all the state's needs.

During the "blue print phase", the project team met with stakeholders to assess the needs of the state. Several potential issues were discovered with the project scope and plan through this process. These issues required changes to the plan that will affect the overall project timeline and staffing needs. A Special Project Report (SPR) has been prepared to reflect these changes.

The Controller's Office reimburses both DPA and SPB for positions provided in their budget for these efforts.

This was held open pending additional information and a new SPR, both of which have been provided. The new SPR shows an estimated current year reduced budget of $30.4, a $7.9m reduction. This is primarily due to a delay in the project, pushing some costs out to future years. The contract for this project has not yet been finalized, as such, the Committee may wish to adopt the estimated cost for the year and allow DOF to adjust the final costs with Legislative notification once a contract has been completed.

The LAO also recommends the following adjustments to the proposed BBL:

1. Where "Special Project Report" is referenced in each of the proposed provisions, it be prefaced with the phrase "the most recently approved"
2. In the third proposed provision, after "Notwithstanding", strike "any other provision of law" and substitute "provisions of Item 9840"

ISSUE 2: 21ST CENTURY PROJECT – FEDERAL FUND REPAYMENT

The Governor's budget proposes $969,000 for reimbursement of federal funds collected in 2005-2006 and 2006-2007.

In early 2007, the U.S. Department of Health and Human Services (USDHHS) notified the Department of Finance that only certain costs are chargeable to federal fund prior to system implementation. As such, an agreement was reached to refund the "over-collected" federal funds from 2005-2007. While this increases costs now, these funds will be recovered from the federal fund upon completion of the 21st Century Project.

This proposal implements the agreement reached with the USDHHS.

ISSUE 3: 21ST CENTURY PROJECT – FINANCE LETTER

Pursuant to changes made in the new SPR for the 21st Century Project, this request is for 24.9 limited term positions, with a zero net impact on the funding amount requested in the original Budget Change Proposal.

Increased staffing costs are being offset by decreased operating expenses.

ITEM 1880 STATE PERSONNEL BOARD

ISSUE 1: 21ST CENTURY PROJECT – TEMPORARY HELP

The Governor's budget requests 1 position and $116,000 in reimbursement authority for temporary help to allow the SPB to continue active participation in the 21st Century Project.

The State Controller's Office and Department of Personnel Administration have the primary role in developing and implementing the 21st Century Project, but there is a need for SPB to be actively involved.

Last year a position was approved to allow SPB to participate. SPB's required duties in regards to the state civil service system will be greatly affected by HRMS and by ensuring they are actively engaged in these efforts, SPB can ensure designs accommodate their needs.

The State Controller's Office has agreed to reimburse SPB for this staff position in recognition of SPB's key role in this process.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

ISSUE 1: 21ST CENTURY PROJECT

The Governor's budget proposes increased reimbursement authority of $623,000 to support the 21st Century HRMS Project.

The DPA plays a key role in development of HRMS. The positions allowed via this BCP will allow DPA to ensure system requirements meet the conditions of all laws, rules, and bargaining agreements administered by DPA. DPA staff will also work to prepare line departments and the unions for changes as a result of the new HRMS.

ISSUE 2: HUMAN RESOURCES MODERNIZATION PROJECT – FINANCE LETTER

This request is for 9 new positions and $2.915m (Special Funds) to expedite components of the 21st Century Project.

The goal for these efforts is to expedite and improve the hiring process, simplify the classification system, and provide workforce and succession planning assistance to departments. These are all integral components to the overhaul of the state's civil service system.

The LAO recommends including SRL similar to that included last year requiring a report on progress of the HR MOD project to the Legislature.

ISSUE 3: 21ST CENTURY PROJECT – REIMBURSEMENT AUTHORITY

This request is for a reduction in reimbursement authority of $85,000 and 1 position to reflect the changes made pursuant to the revised SPR discussed in previous items.

ITEM 0559 Secretary for Labor and Workforce Development

ISSUE 1: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION

The Secretary of the Labor and Workforce Development Agency ensures that there is a Cabinet level participant in the Economic and Employment Enforcement Coalition (EEEC). They also provide oversight over the various enforcement arms of Department of Industrial Relations (DIR), Employment Development Department (EDD), and the Agriculture Labor Relations Board (ALRB). This high level position is useful for cross agency collaboration.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 1: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION

This proposal for $2.5 million (Special Fund) and 25 positions is linked with requests for funding in the Department of Industrial Relations, State Contractors License Board, and the Labor and Workforce Development Agency.

The Economic and Employment Enforcement Coalition (EEEC) is a joint agency education and enforcement effort. It was established in 2005-2006 as a joint effort by State and Federal agencies to combat the “underground economy”. The EEEC conducts multi-agency sweeps, primarily focused on industries known to have high involvement in the underground economy, including: agriculture, construction, car wash, garment, janitorial, restaurant, and racetracks.

Since 2005, EDD alone has logged over 2,000 inspections 300 audits, and collected over $1.3 million. Additionally, they have registered over 150 new employers, but only 25% of those new registrants continue to file and pay their employment taxes. Still, those are now legitimate employers who previously were not contributing to the tax base.

The effort is aimed to both collect funds that these individuals should be paying to the state, as well as eliminate the unfair advantage these employers gain over law-abiding businesses that compete with them.

COMMENTS

While it is difficult to calculate the real effect of these efforts, it does appear that they are having at least some measure of success in both education and enforcement. This proposal includes plans to further evaluate their efforts under EEEC. These measures include development of an outreach survey, conduct random re-inspections of businesses (good to address the 25% maintenance of new registrants), and other tracking data.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 1: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION

This proposal for $3.5 million (Special Fund) and continuation of 29 limited-term positions is linked with requests for funding in the Employment Development Department, State Contractors License Board, and the Labor and Workforce Development Agency.

DIR, unlike the other agencies involved, is more focused on worker conditions. The Division of Labor Standards Enforcement is responsible for enforcing minimum labor standards in order to ensure employees are not working under substandard and unlawful conditions. The Division of Occupational Safety and Health aims to ensure that workers have safe workplaces through workplace safety standards.

ISSUE 2: TRAILER BILL LANGUAGE

At the direction of the Chair, staff worked with the Division of Labor Standards and Enforcement (DSLE) to determine an appropriate protocol to put in place regarding the use of Labor Code 28.10 in enforcing Labor Code violations. The proposed language (below) will provide DSLE with direction, but provides them the flexibility to determine what actions are appropriate and effective and pursue those cases. Though the Protocol will be codified via TBL, the language does provide a means for DSLE to modify this protocol after proper notification and consultation. The proposed TBL reads:

Section 1: (a) The following shall serve as the Investigation Protocol for use of Labor Code Section 2810 by the Department of Industrial Relations Division of Labor Standards Enforcement. This Protocol may be adjusted by the Division of Labor Standards Enforcement as deemed necessary to ensure proper implementation of the intent of Labor Code 2810. Any such changes shall not go into effect until the proposed changes are submitted, in writing, and filed with the Chairperson of the Joint Legislative Budget Committee and the Chairperson of the committee in each house that considers appropriations not later than 30 days prior to the effective date of the approval, or whatever lesser time the chairperson of the joint committee or his or her designee may determine.

(b) (1) In any investigation by EEEC or BOFE involving a labor contractor employing 15 or more workers in any of the five targeted areas specified in Labor Code Section 2810, and where DLSE either has a reasonable suspicion that violations of potential "financial significance"

have been committed or where such violations have been cited by DLSE and have not been set aside by DLSE within 15 days of the issuance thereof, DLSE will:

(A) Issue an administrative subpoena for the relevant portions for any written contract covering the work performed by the contractor;

(B) If it satisfied that there is no written contract, inquire of the contractor what the relevant terms of any oral contract are and make a written record of the information provided by the contractor

(C) Make a record of whether the terms of any applicable contract lead to a reasonable likelihood that the contract violates the provisions of Section 2810 of the Labor Code and, if so, whether the DLSE decided to file a legal action pursuant to Labor Code Section 2810. This record shall include a brief analysis of the reasons why DLSE chose not to file a legal action.

(2) For purposes of this protocol, a violation of "financial significance" includes, but is not limited to, any of the following violations which are within the jurisdiction of the DLSE:

(A) Failure to have a workers compensation insurance policy covering all employees;

(B) Multiple minimum wage violations over a period of one or more months; or

(C) Multiple serious overtime violations over a period of one or more months.

(3) It is recognized that there may be extenuating circumstances in a particular case where implementation of this protocol may not be feasible or practical. DLSE shall make a record in each instance where there was a reasonable likelihood that provisions of Labor Code Section 2810 were violated but DLSE determined that implementation of this protocol was not feasible or practical. This record shall include a brief analysis of why implementation was not feasible or practical.

Section 2:

Pursuant to the Protocol, a report shall be submitted to the Chairperson of the Budget Committee of each house of the Legislature and to the Legislative Analyst's office including:

1) Information on all use of Labor Code 2810

2) Information on instances where violations were suspected but Labor Code 2810 was not used

3) Other information recorded pursuant to the Protocol

ITEM 0840 STATE CONTROLLER'S OFFICE

ISSUE 1: BUDGET BALANCING REDUCTION – 10 PERCENT CUT

The Governor proposed a 10 percent cut for the State Controllers office, but did not allocate how those cuts should be made. The original 10 percent cut was equivalent to $8.986 million.

COMMENTS

In the May Revise, the Governor reduced the proposed cut to $1.1 million dollars to account for Central Service Agency realignment as well as adjust for funding that shouldn't be factored into the 10% calculation.

The Controllers office has proposed these cuts come primarily from equipment, printing, travel, and training costs.

ITEM 0845 DEPARTMENT OF INSURANCE

ISSUE 1: WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM

The Governor's Budget proposes a one-time augmentation of $4 million (Special Fund) to be distributed to DA's for prosecution of Workers' Compensation Fraud through a competitive grant process.

The funding for this proposal is allocated by the Fraud Assessment Commission, and they approved this increase in funding on September 11th, 2007. This funding is requested on a one-time basis due to a scheduled report due on workers' compensation fraud. Once that report is completed and reviewed, the Department may look at making this funding permanent.

COMMENTS

The Subcommittee held this open pending a report that was due from the Department. That report has been received.

ISSUE 2: AUTOMOBILE RATING REGULATION WORKLOAD

The Governor's Budget proposes 5 positions and $475,000 (Special Fund) to address administrative hearing workload throughout the Department of Insurance.

The Department expects increased demand for insurance rate hearings based on:
1) New requirements that automobile insurance rates and class plans must be submitted with an accompanying rate applications.
2) New authority of the Commissioner to require a new rate application under specified circumstances. The Commissioner wishes to use this authority in cases where insurers appear to have excess rates.
3) New hearings were recently authorizes based on earthquake insurance and reinsurance costs.
4) Expansion of viable grounds for use of requests for variance from a set rate formula are expected to increase the number of requests.

COMMENTS

Rate applications are deemed approved 180 days after they are received by the Department. As such, it is important for the Department to have adequate staffing to meet the increased needs based on recent regulatory and statutory changes.

The projected staff need is based on projected increases based on a multitude of changes. The Subcommittee may wish to ask the Department how sure they are this workload will materialize.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

ISSUE 1: OFFICE OF PUBLIC SCHOOL CONSTRUCTION

SCHOOL FACILITIES PROGRAM – FISCAL SERVICES STAFFING

The Governor's Budget proposes 7.0 positions (6 permanent and 1 limited term) and $740,000 (School Facilities Fund) for the Office of Public School Construction (OPSC) to conduct audits under the School Facilities Program (SFP) and to establish an integrated audit information system.

BACKGROUND

Under the direction of the State Allocation Board (SAB), OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.
Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	$7,350,000	$903,813	$475,997
Prop 55 (2004)	$10,015,500	$9,342,087	$6,653,444
Prop 47 (2002)	$11,400,000	$11,284,811	$9,675,482
Prop 1A (1998)	$6,700,000	$6,648,081	$6,647,663
TOTAL	$35,465,500	$28,178,792	$23,452,586

(*dollars in thousands)

SFP Construction Process. The current process for construction under the SFP can take more than nine years to go from application to apportionment, from funding to expenditure, and finally from the beginning to the end of the audit process (project closeout). The following table shows where the OPSC estimates each of the school facilities bonds in terms of the progression from fund apportionment to final closeout.

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	11/1998 to 10/2002	11/2002 to 12/2006	03/2004 to 05/2008*	12/2006 to 08/2011*
# of Projects Not Yet Apportioned* ($ Amount)	0	8 ($0.1 billion)	67 ($0.7 billion)	2,215 ($6.4 billion)
# of Projects Apportioned, But Not Closed ($ Amount)	331 ($2.5 billion)	2,117 ($8.4 billion)	2,407 ($9.1 billion)	615 ($0.9 billion)
# of Projects Closed ($ Amount)	2,126 ($4.2 billion)	1,496 ($2.9 billion)	111 ($0.2 billion)	0
Closeout Period*	4/2000 to 3/2011	5/2003 to 5/2015	10/2005 to 10/2016	5/2008 to 1/2020

(*estimated)

OPSC Projected Audit Workload. According to OPSC, state regulations (Title 2 California Code of Regulations Section 1859.106) require OPSC to audit project expenditures of school districts within two years of receipt of the final expenditure report from the district. According to the regulations, the audit is conducted to ensure that districts are meeting statutory requirements with regard to their projects as well as assure that the district complied with all site acquisition guidelines.

According to OPSC, the bulk of the audit and closeout workload will hit in the next ten years. For example, OPSC indicates that its current audit workload of 1,400 projects worth $7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, OPSC projects that the audit workload will increase to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years. In anticipation of this increase in workload, the OPSC is requesting 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC.

Audit Standards. According to OPSC, since 2000, OPSC Fiscal Services staff has recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP. However, concerns have been raised by the field with regard to the consistency of the standards by which these audits are conducted since OPSC does not have published or adopted audit standards. With clear audit guidelines and audit training for staff, the SFP audit program would better ensure that bond awards are being spent appropriately.

Governor's Executive Order Regarding the Establishment of an Automated and Integrated Audit Information System. According to OPSC, under the Governor's *Executive Order S-02-07* the OPSC is required to establish an automated and integrated audit information system to provide better accountability and web accessibility to project information for all SFP projects. *Executive Order S-02-07* sets forth the Administration's plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

COMMENTS

This item was heard by Assembly Budget Sub-Committee 2, where they recommended that Sub-Committee 4 approve the 7 positions on a two-year limited-term basis. Based on continued discussions with the Department and some clarifications, the recommendation is now to keep the positions as permanent.

ISSUE 2: BOND ACCOUNTING

DGS requests 5.0 positions and $464,000 (Service Revolving Fund) to address increased bond accounting workload resulting from the $7 billion in new State Public Works Board revenue bonds authorized under Chapter 7, Statutes of 2007 (AB 900) for the Department of Corrections and Rehabilitation Prison Bed Construction Project.

Currently, no AB 900 projects have been approved, so the workload supporting this request is speculative. However, bond accounting workload will undoubtedly emerge, it's just not known exactly what it will be. The Department has current and future bond accounting responsibilities regardless of AB 900 workload.

Per the Committee's direction, more workload data was acquired from the Department. While staff recommends approval of the request for this year, it may be appropriate to only approve funding for one year, requiring the Department to come back with actual workload data if they believe the positions are still warranted in the next year.

ISSUE 3: FINANCE LETTER – OFFICE OF ADMINISTRATIVE HEARINGS

This request is for approval of 3.5 positions and $357,000 (Service Revolving Fund) for the Special Education Dispute Resolution Program.

In 2005, the Office of Administrative Hearings (OAH) entered into a 3 year agreement with CDE to provide administrative hearings and mediations service to disabled school children as required by Federal and State laws and regulations. This agreement was amended and expanded later that year, and will be expiring at the end of this fiscal year. According to the Department, CDE has expressed its desire to continue having OAH provide these services, but there is no new agreement in place yet.

COMMENTS

The agreement with CDE for continued and expanded services has not yet been finalized. Details on this agreement are lacking and do not fully justify the staffing requested here.

ISSUE 4: LIBRARY & COURTS BUILDING RENOVATION – BCP

The Governor's budget proposes a re-appropriation of construction funds ($43.7 million Service Revolving Fund) for renovation of the Library and Courts building in Sacramento. Funds were originally approved in 2005-06 to proceed to bid by June 30th, 2008. During development of the preliminary drawings, plans had to be changed to account for no longer being able to allow continuous occupancy of the building during construction.

COMMENTS

This will prevent these funds from being lost for availability for use on this project. Staff has no concerns.

ISSUE 5: LIBRARY & COURTS BUILDING RENOVATION – FINANCE LETTER

This Finance Letter requests, on top of the re-appropriation of funds in the previous item, a supplemental augmentation of $15.958 million (Service Revolving Fund) for the same Library and Courts Building Renovation. This represents a 32.5% increase in project construction costs.

DGS attributes the cost increases to:

1) Availability of more detailed drawings on which to base estimates,
2) Delay of construction,
3) Rapid escalation in costs for raw materials and increased labor rates,
4) Program efficiency enhancements

COMMENTS

Some of these costs are, relatively, unavoidable. The new detailed drawings provided new information of the showed increased project costs. Those changes caused a delay in construction which causes inflation in the cost estimates for labor and materials.

There is also an increase in costs by $2.4 million dollars for in increase in the scope of the project. A large part of the project changes had to do with a realization that the project could not be completed without relocation of staff, as was originally intended. This required temporary relocation of the tenants.

Library and Courts staff are currently both divided between 900 N Street, and this building. In discussions about a temporary move of staff, it was decided that operational efficiencies could be achieved by permanently moving all Court staff into this building once renovation was complete. This will allow all Court staff to work in the same building, which they claim will be much more efficient. Making this change permanent however, requires an estimated $2.4 million in tenant improvements to facilitate the change. These costs were not part of the originally approved project scope.

The proposal does, however, have merits in terms of whether or not to do this permanent move. If it is ever going to be done, now is the time. With moving and construction already in the plans, the costs for doing this move separately at a later date would be significantly more expensive.

Discussions with Courts staff have shown that current year savings cannot be scored, but the Committee may wish to express to DOF that future years savings produced by this proposal should be scored when appropriate.

ITEM 1900 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ISSUE 1: FINANCE LETTER

This request is for $359,000 (special fund) and 3.0 positions to support core workload for contract management and oversight functions that leads to greater contractor accountability and improves health care outcomes for PERS members.

COMMENTS

This proposal will allow PERS to expand contract monitoring and oversight, essentially keeping the HMO's honest. This proposal sets up the infrastructure for a system of greater accountability. Once this is complete, PERS will provide another BCP based on that infrastructure which will provide them with more detailed information on personnel needs.

ISSUE 2: MAY REVISE – INCORPORATING APPROVED BUDGET

This request is for "non-add" items displayed for informational purposes to reflect a corresponding change in the PERS continuous appropriation authority. These budget changes were approved by the PERS board at their April 23rd hearing.

COMMENTS

A technical error was made in the drafting of this request. The Committee's action should include recognition of technical changes to be made by DOF to the request.

ISSUE 3: REVISIONS TO CONTROL SECTION 3.6

The final retirement rates, housed in *Control Section 3.6*, as proposed by PERS, result in lower that expected retirement costs. The adoption of the proposed rates will lead to a decrease in General Fund expenditures of $29.5 million and savings in special funds as well.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: BUDGET BALANCING REDUCTION – ENTERPRISE ZONE

Proposed reduction of $59,000 from the Enterprise Zone program, which offers benefits to employers to locate or expand within economic development areas, most significantly a tax credit to hire hard-to-hire employees. It is staff's understanding that this cut will primarily be achieved through reduced outreach/advertising efforts.

ISSUE 2: BUDGET BALANCING REDUCTION – OFFICE OF MIGRANT SERVICES

The Governor proposes an annualized reduction of $687,000, but assumes only $343,000 in savings in the Budget Year due to the delay time to implement changes. These centers provide safe, decent, and affordable seasonal housing and support services for migrant farm worker families during the peak harvest season. The General Fund provides 2/3rds of the funding for the facilities, and tenant rents pay the rest.

COMMENTS

While initial estimates thought the state may need to shut down 4-6 facilities, that is no longer the case. During the special session hearings, HCD was able to eliminate state funding from a Central Valley facility administratively and is partnering with the locals to keep that facility open based on reserve funds. This saves approximately $202,000, leaving $141,000 to be spread throughout the other centers around the state.

The Department has indicated that there are several options on how the remaining $141,000 will be cut. The first priority is to find other centers with sufficient reserves to fund operations for the next year, like was done with the Central Valley facility. Doing this reduces some limitations enforced on the facility when utilizing state funds. The Department is also working to get federal dollars to ease the demand on the state budget.

If neither of those options achieves the necessary $141,000 reduction, an across the board cut would be approximately equal to a 2 percent General Fund reduction for all centers. With all these options available, the Department does not expect to need to close any facilities over the next two growing seasons (2008-09). To ensure that facilities don't need to be closed, Staff recommends including BBL such as:

Upon receipt of federal funds for the rehabilitation of migrant farm worker housing, the Director of the Department of Finance may reduce funding in this item for the Office of Migrant Services by an amount not to exceed $343,000 or the level of federal funding awarded, whichever is less. Not more than 30 days after reducing the appropriation, the Director of Finance shall notify in writing the chairpersons of the committees in each of the Legislature that consider appropriations and the Chairperson of the Joint Legislative Budget Committee of this action.

ISSUE 3: MOBILEHOME PARK LOCAL CODE ENFORCEMENT – FINANCE LETTER

This request is for $521,000 (Special Fund) to provide additional enforcement staff in the event a local code enforcement agency returns Mobilehome Park Act enforcement responsibilities to HCD, as is currently allowed under the Act.

COMMENTS

San Bernardino County has expressed that it MAY return these enforcement responsibilities to HCD. If they do, the Department will need this allocation to complete their duties. These costs will be offset by additional revenue that will be collected pursuant to their enforcement responsibilities (currently collected by San Bernardino County).

Provisional language is included that directs for this to take place only upon written notification of such transfer of responsibility from the County to the Department.

Staff Recommendation: Approve

ISSUE 4: OFFICE OF MIGRANT SERVICES – FINANCE LETTER AND BBL

This request is for $1.8 million to provide additional federal fund authority in anticipation of awards from federal grants to rehabilitate state-owned OMS facilities.

COMMENTS

Each center requests funding separately, so those grants that are received will go towards the facilities specified in the grant application.

Language should be included to read:

"Of the amount appropriated in this item, $1.8 million shall be available upon receipt of a federal grant for support of the Office of Migrant Services program."

ITEM 2320 DEPARTMENT OF REAL ESTATE

ISSUE 1: SENATE BBL

This Sub-Committee has already closed out the DRE budget, but the Senate made some changes to the BBL for the Department. Staff recommends that the committee formally adopt the same language for conformity.

2. The Department of Real Estate shall, by January 10, 2009, report to the chairperson of the budget committee of each house of the Legislature and to the Legislative Analyst's Office all of the following: (a) Actual workload data for the 2006-07 and 2007-08 fiscal years compared to the workload projected by the department in ~~the prior report~~ February 2006; (b) service levels of the enforcement program for 2006-07 and 2007-08 fiscal years compared to the service levels projected by the department in February 2006, measured by the average number of days to process a case through the complaint, audit, legal and flag phases; ~~(b)~~ (c) projected workload and enforcement data for the 2008-09 and 2009-10 fiscal years; (c) any staffing and funding changes requested based on (a) ~~and (b)~~ through (c). Workload data shall include, at a minimum, the total number of licensees; the number of onsite and offsite exams scheduled; the number of licenses issued; the number of enforcement cases assigned; the number of audits performed; the number of Subdivision Program filings; and the number of legal actions filed.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 1: SAN FRANCISCO RELOCATION

This proposal requests $432,000 (including $130,000 GF) in FY 2008-09, $3.6 million (including $1.1 million GF) in FY 2009-10, and $6.9 million (including $2.1 million GF) ongoing to fund the relocation of the DIR headquarters office and two District Offices to allow for the expansion of the Administrative Office of the Courts (AOC) and the Department of Justice (DOJ) within the Hiram Johnson State Building located in San Francisco.

LAO

The Governor's budget states that the relocation of DIR is necessary for two main reasons—to accommodate the needs of DOJ and AOC and to provide more space for DIR. However, to date, DOJ and AOC have not provided any plan or justification for this expansion. Because all three state agencies share space within the HJSB, it is premature for one department to begin planning for relocation before the other departments have provided a plan that justifies their need for additional space. Moreover, the budget balancing reductions proposed for all three departments, if adopted, could change staffing levels and result in a less urgent need for new space.

COMMENTS

In the current budget situation, this move seems extremely costly while alternatives have not been adequately reviewed. Prior to future requests for relocation, the Department should review which aspects of their operation truly need to be located in San Francisco, and which could be relocated without negative effect on their constituency.

ISSUE 2: WORKERS' COMPENSATION INSURANCE COVERAGE PROGRAM

The Governor's budget proposes $143,000 for one position for the workers' compensation insurance coverage program to systematically identify unlawfully uninsured employers. This position is expected to offset its costs by penalties assessed as the program is implemented.

COMMENTS

This proposal is to implement SB 869 from 2007. The appropriations analysis for that bill stated that costs should be less than $30,000 in 07-08 and revenue positive in out years. Staff was not able to reconcile the cost estimate differences.

ISSUE 3: AMUSEMENT RIDE

This proposal requests 2.6 positions and $311,000 (Elevator Safety Account) to implement the new provisions of Chapter 478, Statutes of 2007 (SB 783) which expanded the types of accidents that owners and operators of non-permanent or portable amusement rides must report to the Division of Occupational Safety and Health (DOSH), and required the DOSH to enforce the statutory and regulatory provisions pertaining to portable amusement rides by issuance of citations and civil penalties. The DIR indicates 2.0 positions would work to implement the new provisions, while 0.6 positions would be under the Occupational Safety and Health Appeals Board to manage the estimated increase in the number of appeal cases.

COMMENTS

This request reflects the estimated costs presented to the Legislature last year, and is completely funded from special funds. However, the available reserves for the Elevator Safety Account have decreased significantly and will nearly be exhausted at the end of the budget year. As such, the Committee may wish to avoid expanding their expenditure authority.

ISSUE 4: STATEWIDE FACILITIES

This proposal requests $875,046 (Special Fund) to support costs associated with additional space in the LA, Riverside, and Santa Ana district offices along with relocation of the Grover Beach district office.

COMMENTS

The Department has some unique space needs such as waiting areas for claimants, hearing rooms, etc. that impose increased facility costs beyond the standard state rate. These funds will help them bring their facilities up to standard and to meet their needs.

ITEM 9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

ISSUE 1: MAY REVISE

This item is budgeted based on an estimate for the health premium the state will have to pay. The Governor's budget projected a 9.5% increase in health premiums, but PERS estimate is now at 6.3%. The Governor's May revise proposes a savings of $13.5 million (General Fund) based on this new estimate.

Furthermore, this item accounts for Medicare Part D subsidies, which are also projected to come in at approximately $17.5 million higher than projected in the Governor's Budget.

COMMENTS

The Committee may wish to send this item to conference to allow time for more accurate estimates.

VOTE ONLY ITEMS

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: BUDGET BALANCING REDUCTION – EMERGENCY HOUSING

The Governor proposes a reduction of $401,000, resulting in the reduction of state contributions for approximately 1,900 shelter beds. The Emergency Housing Assistance Program (EHAP) currently helps to fund local homeless shelters, providing a portion of the funding for about 19,000 shelter spaces each year. This 10 percent cut will, in essence, eliminate the state's portion of funding for 10 percent of those spaces.

COMMENTS

The State currently provides about 10 percent of the overall funding for local homeless shelters. This cut could have a detrimental impact on HCD's ability to support homeless shelters. During tough economic times, these facilities often see an increase in usage, making this a bad time for such reductions.

ITEMS TO BE HEARD

ITEM 0520 BUSINESS TRANSPORTATION AND HOUSING AGENCY

ISSUE 1: INFRASTRUCTURE BANK STAFFING

The Governor's budget is proposing an augmentation of $664,000 from the California Infrastructure and Economic Development Bank Fund to fund salaries and wages and associated costs for seven new positions to handle increases in workload, monitor bond and local proceeds and legislation and provide increased outreach for the program.

LAO RECOMMENDATION

The Governor's budget requests an additional 7 positions for the I-Bank in 2008-09 and beyond to handle current workload levels. With 20 positions currently authorized for the I-Bank, this would represent a 35 percent increase in staffing. The LAO's Analysis finds that a portion of the I-Bank staffing augmentation request is not justified. Workload for the I-Bank's ISRF program has declined in recent years, yet the authorized staffing levels for this program have remained about the same. The LAO recommends rejecting 2 loan officer positions requested for the ISRF program on a workload basis.

COMMENTS

When this item was heard on March 25th by the Subcommittee there were some policy concerns raised related to the manner in which the I-Bank uses project scoring methodology to effectively promote the economic and land use objectives of the program. Staff feels that these issues are more appropriately addressed through the policy bill process because they would require significant changes to statute.

Staff recommends that the Subcommittee approve the LAO recommendation for a reduced augmentation of staff at the I-Bank. If the workload continues to grow in the budget year, staff feels that it would be appropriate to seek approval of the additional PYs requested in the following budget year.

ISSUE 2: SMALL BUSINESS LOAN GUARANTEE PROGRAM

The Governor's budget is proposing to fund administration costs of $360,000 per year for three existing positions to administer the Small Business Loan guarantee Program from Small Business Expansion Funds that were formerly used for child care facility loan guarantees through the Department of Housing and Community Development (HCD). Since 2003-04, the program has been funded with surplus salary savings that resulted from the closure of the Secretary for Technology Trade and Commerce. These funds will be exhausted by the end of 2007-08.

COMMENTS

The Governor's proposal would fully fund program administration costs by using funding that was originally transferred from the General Fund to HCD for child care facility loan guarantees. An alternative option to fully fund the program would be to appropriate General Fund on an ongoing basis and transfer the Child Care Loan Guarantee funds to the General Fund. While this would be no net savings over an extended year period from this approach, in the budget year this action would result in a savings of $720,000. If the Subcommittee wanted to maximize General Fund savings, it could reduce funding to the program sweep the entire Child Care Facility Loan Guarantee Funds to the General Fund and direct the agency to fund these positions by cutting funding for local financial development Corporations that administer this program. This option would likely result in a program-wide reduction of 100-120 small business loan guarantees.

Staff feels that the Administration's proposal would be the best approach to take as it fully funds the program, avoids General Fund augmentations, and does not cut the loan guarantee capacity of local financial development corporations.

ISSUE 3: EXPANDING BROADBAND ACCESS AND USAGE IN CALIFORNIA

The Governor's budget is proposing a $162,000 (General Fund) augmentation to support a Deputy Secretary position to implement the Governor's Executive Order S-21-06, "Twenty First Century Government: Expanding Broadband Access and Adoption Throughout California."

COMMENTS

This issue was heard on March 25th and held open. Outside of the merits of the program, the Governor's proposal is for new General Funding spending to implement an Executive Order issued by the Governor that did not receive deliberation by the Legislature. Staff feels that if the Legislature wishes to embark on such an initiative, it should establish its policy preferences through the legislative process. Without legislative action, staff feels that new General Fund support for this program would be premature.

ISSUE 4: OFFICE OF MILITARY AND AEROSPACE SUPPORT

The Governor's budget is proposing a budget balancing reduction of $55,000 from the Office of Military and Aerospace Support. This program was established to coordinate California's efforts to prevent the closure of statewide military bases in the recent military base reuse and closure (BRAC) process.

STAFF COMMENTS

In the Senate, Subcommittee 4 acted to eliminate the office for a total General Fund savings of $557,000 because its established function, to protect statewide military bases from BRAC, had completed.

At the hearing, staff recommends that the Subcommittee consider conforming with the Senate's Action. The Agency should be prepared to discuss with the Subcommittee how the Office continues to serve a functional role in the state and how that role has changed since the completion of BRAC.

ITEM 2100 DEPARTMENT OF ALCOHOL BEVERAGE CONTROL

ISSUE 1: CONSUMER PRICE INDEX ANNUAL FEE ADJUSTMENT

The Governor's budget is requesting authorization for the Department to initiate a 3.28 percent Consumer Price Index (CPI) increase for its annual license fee. This increase is estimated to generate $517,000 in 2008-09 and $1 million annually thereafter for support of the Department's ongoing operations. This augmentation is coupled with a $1 million reduction to local enforcement grants that will be applied equally to the amounts awarded to each local agency.

BACKGROUND

The Department is a special funded entity that receives a majority of its revenues from annual alcohol license fee renewals. Since 2005, there has been expressed concern in the Subcommittee that the Department's high vacancy rates in enforcement officers were challenging their ability to adequately enforce statewide alcohol beverage laws. In order to ensure that the Department had adequate fee revenue for its operations, ABC was authorized in 2005 to make annual CPI adjustments to licensing fees.

Though fund conditions were stable when this authority was provided, recent increases in salaries resulting from collective bargaining agreements and increases in overtime costs due to high vacancy rates have severely impacted the Departments funding. Looking forward, the Unit 7 contract is up for negotiation and the Department is anticipating further salary increases and cost pressures to the ABC fund as a result.

COMMENTS

ABC has not adjusted its annual license fees since authorized to do so beginning in January 2005. The CPI has increased 11.78% during this same period of time. In January the Administration deemed it was necessary to increase the CPI by 3.28% and cut law enforcement grants by $1 million to line up increased revenues with expenditures in the Alcohol Beverage Control Fund. However, since the release of the budget the staff understands that the Alcohol Beverage Control fund, which funds most of the Department's programs, will actually be running around a $2 million deficit in the budget year with additional expectations that the Department will incur a 5 percent increase in salary costs due to collective bargaining changes.

In order to bring the Department's budget in balance ($2 million), restore the local law enforcement grants ($1 million), and provide funding increases in salary costs ($1 million) and provide funding to fill enforcement vacancies, staff recommends that the subcommittee:

1. Increase annual license fees by the entire growth of the CPI of 11.78%. This equates to what would have been an annual increase of 3% and will generate $3.7 million in new revenue.

2. In addition to annual fees, the Department also collects revenue from daily and special permits that consist primarily of catered events and manufacturer tasting activities. As displayed in the list below, these fees are minimal and not cover any of the costs of issuance for the department and many have not been adjusted since the 1980s, with some not changing since the 1960s. Staff recommends that these fees be adjusted to reflect the full CPI since the fees were created. This would generate about $1.8 million in new revenue.

Daily and Special Permits Fee Information

Daily Permits	**Fee Change**	**Issued**	**Fee Cost**	**CPI increased Fee Cost**
On-Sale Beer	01/01/84	1,031	15.00	31.00
On-Sale Wine	01/01/84	1,428	15.00	31.00
On-Sale Beer & Wine	01/01/84	10,405	30.00	62.00
On-Sale General	11/10/69	10,199	25.00	141.00
Catering Authorizations	01/01/79	7,893	10.00	33.00
Tasting Permits		1	25.00	34.00
Beer Manufacturer or Out-of-State Beer Tasting	01/01/89			
Beer Manufacturer Trade Assiciateion Tasting	01/01/96			
Distilled Sprits Manufacturer Tasting	01/01/98			
Distilled Sprits Manufacturer - Out of State Tasting	01/01/98			
Special Permits		532	100.00	218.00
Special Off-Sale Beer & Wine Auction (non-profit TV)	01/01/76			
Special Off-Sale B&W Auction (Educational & Charitable)	01/01/75			
Special Off-Sale General Auction (non-profit corporation)	01/01/76			
Special On or Off-Sale Wine (non-profit corporation)	04/21/78			
Special Off-Sale Wine (estate sale or auction)	01/01/82			
Special On-Sale Beer & Wine (non-profit TV)	01/01/85			
Speical Off-Sale General (former licensee to sell off stock)	01/01/96			
Special On-Sale wine (viticultural asociation)	08/26/97			
Daily On-Sale General (San diego vessel)	01/01/87	0	50.00	93

ITEM 2150 DEPARTMENT OF FINANCIAL INSTITUTIONS

ISSUE 1: APRIL LETTER: INCREASED SUPERVISION OF MONEY TRANSMITTER

The Department is requesting $1.03 million and 9.0 positions on a three year limited term basis to address examination workload increases in the Transmitters of Money Abroad Program.

The Department is solely responsible for regulatory oversight and supervision of this industry in the State and has recently been unable to meet examination cycles of its licensees due to a tremendous growth in the number of licensees and agents, increased enforcement actions, an increased number of poorly rated licensees, and the necessity for additional supervision due to anti-money laundering and terrorist financing regulations.

ITEM 8660 PUBLIC UTILITIES COMMISSION

ISSUE 1: BIG BOLD ENERGY EFFICIENCY STRATEGIES IMPLEMENTATION

The Governor's budget is requesting 5.0 positions and $548,000 (PURA) to maximize investor-owned utility (IOU) energy efficiency savings through 2020 and beyond.

The CPUC states that this BCP will improve the Commission's ability to oversee and improve the IOU short and long term energy efficiency effort, including review and approval of the multi-billion dollar IOU energy efficiency portfolio plans, implementing a coordinated "big and bold" statewide initiatives for energy efficiency; overseeing development of a statewide IOU long term strategic energy efficiency plan; evaluating and measuring the energy savings achieved; and assessing market potential, market penetration, and technical efficiency programs.

COMMENTS

Current statute requires that utilities meet their *"unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible."* As a response to this statute, the Public Utilities Commission is launching a new aggressive approach to promote energy efficiency through "big and bold" statewide strategies for energy efficiency for the upcoming 2009-11 program cycle, and for the long-term through 2020. The PUC is aiming to create a framework for sustainable energy efficiency programs and other programs throughout the investor owned utility (IOU) service areas to reduce or avoid energy consumption, and a process for accomplishing those efforts through long-term IOU strategic planning that transcends regulatory, programmatic and jurisdictional constraints, and emphasizes a broader view of the energy efficiency landscape.

During the 2006-08 ratepayer cycle, the IOUs invested approximately $2 billion into energy efficiency. Prior to 2006, the utilities performed the evaluation, measurement, and verification function of their energy efficiency achievements. There are over 200 program areas and over $118 million in consultant contracts for this function.

The Legislature and the Administration have made it a policy priority to aggressively pursue energy efficiency measures statewide in order to fill future electricity generation needs and to reduce particulate and greenhouse gas emissions. This proposal will push IOUs to adopt programs that move beyond "low hanging fruit" energy efficiency solutions towards larger, long term comprehensive shifts in building design, operation, and planning. As such, staff does not have any concerns with this increase in staffing.

ISSUE 2: OFFICE EXPANSION PROJECT

The Governor's budget proposes $1,889,000 from various special funds to expand the San Francisco, Los Angeles, and Sacramento Offices.

Specifically, this augmentation will provide the following:

- **San Francisco:** Establish a new satellite office for 125-150 employees in close proximity to headquarters.
- **Los Angeles:** New office space will be leased to accommodate 100 employees from the Rail Safety and Consumer Affairs Branch to serve Southern California constituents.
- **Sacramento:** New office space to accommodate the new Universal Lifeline Telephone Service (ULTS) Eligibility Appeals Section of 31 employees.

COMMENTS

Over the years, staff has increased in size due to new legislation and program mandates. Additionally, DGS has informed the CPUC that new workstations approved in last year's budget have made the current floor space for the CPUC insufficient to accommodate existing and new staff while adhering to fire martial codes and Americans with Disabilities Act requirements.

When this issue was heard in subcommittee on April 29th, the Administration was asked to report back to the subcommittee on how DGS coordinates office space requests in high market areas to ensure that savings are maximized. Staff understands that this discussion will continue under the budget of the Department of General Services because they are responsible for state government office space management.

Staff maintains concern that a high concentration of the office space that the CPUC is requesting in this BCP is in the high rent San Francisco Office. However, from discussions with the Commission, staff feels that this specific request could not be rejected without either moving current staff to other statewide locations or halting the ongoing workstation modernization project that would have ADA compliance complications. Additionally, the commission has asserted to staff that they are following a multi year staffing plan that will locate staff, where possible, in lower rent locations away from the headquarters in San Francisco.

ISSUE 3: LAO RECOMMENDATION: ELECTRICITY OVERSIGHT BOARD

LAO Comments. As part of the 2007–08 budget process, the Governor proposed an EOB budget of $4.1 million, but also proposed budget bill language allowing the Director of Finance to reduce appropriations to EOB included in the budget to reflect savings from elimination of the board. However, the Governor's budget proposal did not specify how EOB's existing workload and authority would be transferred to another state agency. In response to the Legislature's decision to appropriate $4.1 million to the EOB in 2007–08, the Governor exercised his veto authority to reduce EOB's 2007–08 budget by 25 percent. In a statement accompanying the veto, the Governor declared his expectation that, by April 1, 2008, the EOB would be eliminated and have transferred its remaining duties to CPUC.

Governor's 2008–09 Budget Eliminates Both EOB. Despite the Legislature's direction that elimination of the EOB and dissemination of its remaining duties be considered as part of the Legislature's policy–making process, the Governor's budget proposal includes no funding for the EOB in 2008–09. Indeed, documents supporting the Governor's budget proposal restate his intent that EOB cease operation on April 1, 2008, claiming that, because other state agencies have already taken on the duties of the EOB, the board's continued operation is no longer necessary.

Proposed EOB Elimination Involves Policy Choices. The LAO agrees that there may be merit in consolidation of EOB's functions in another energy entity since it has statutory duties that are unique to it, although other state energy agencies may have duties that are similar or related to those of EOB. For example, while both EOB and CPUC monitor electricity markets, only EOB monitors the day–to–day performance and outcomes of the electricity market, whereas CPUC has focused its efforts on the evaluation of electricity market design. In addition, EOB has ongoing workload, including its participation in a number of FERC proceedings and litigation on behalf of the state's ratepayers that has added value to, rather than being merely duplicative of, the involvement of other state agencies in these matters.

Staff Comments. Staff agrees with the LAO concern that the Governor's veto ignored many of the policy choices that need to be made in order to ensure that all of the prior functions of the EOB are transferred on and on continue. Staff feels, however, that the majority of these issues are best suited for a policy bill discussion since they would significant reorganization of state government which is beyond the purview of the subcommittee. Staff understands, however, that with the elimination of the EOB, no state agency currently has signature authority to sign off on various lawsuits related to the energy crisis that could provide billions of dollars in ratepayer benefit. In order to move this discussion forward to conference committee, staff recommends that the subcommittee approve trailer bill language in concept giving the Attorney General's office authority to sign off on those settled lawsuits that do not have in the place of EOB.

ITEM 1100 CALIFORNIA SCIENCE CENTER

ISSUE 1: FINANCE LETTER & MAY REVISE

This Finance Letter requests an increase in expenditure authority of $365,000 from the Exposition Park Improvement Fund (Special Fund) and increased reimbursement authority of $158,000. These budget adjustments reflect changes made by the new Los Angeles Coliseum lease signed on Feb. 13, 2008. The new lease increased payments to the State from $80,000 to $1 million per year, while taking on some new responsibilities in regards to landscaping and repair costs. The reimbursement authority request is to bill the City and County for their share of the landscaping and repair costs.

Expenditures under this authority will include $115,000 in security and facility maintenance/upgrades including security camera's, repair of patrol vehicles, and restroom repair.

The May Revise proposal requests a decrease in General Fund of $414,000 and an increase of $414,000 from the new lease money. The Finance Letter allocates $365,000 of the new Lease money, leaving $645,000 in reserves. The May Revise proposal uses $414,000 of the $645,000 to offset General Fund expenditures, leaving $231,000 in reserves.

COMMENTS

The new lease has been implemented and this authority is necessary to meet the obligations of that lease. The finance letter does provide new funding to the Center for new responsibilities. The May Revise proposal provides General Fund Savings of $414,000 without reducing the resources available to the Science Center. Next year the Science Center will have the opportunity to present a comprehensive budget for the use of the full lease amount. This proposal still places a healthy amount of funding into reserves, which can help address unforeseen costs that could arise from the new responsibilities under the new lease.

ITEM 1920 STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 1: PERSONAL PROPERTY FOR NEW HEADQUARTERS PROJECT

This proposal requests one-time funding of $25 million (Teachers' Retirement Fund) to augment STRS support budget to procure the goods and services necessary to equip the new headquarters location and move approximately 1000 permanent and temporary positions in June 2009.

COMMENTS

STRS completed an analysis of options, including utilizing existing furniture, but due to age and logistics, they determined that new furniture would be the most effective/appropriate option.

With the massive amount of money proposed for this purpose, the Subcommittee may wish to have the LAO work on some reporting language to keep the Subcommittee informed on how these funds are spent. Language would be along the lines of:

"Transparency Concerning West Sacramento Headquarters Costs. On or before April 1, 2009, the California State Teachers' Retirement System (CalSTRS) is requested to provide updated estimates of all actual and anticipated capital, personal property, and related costs for developing, constructing, and equipping its new headquarters building in West Sacramento. The estimates shall reflect (1) the total of all such costs and estimated costs from the beginning of the development of the project until its conclusion and (2) a listing of actual and estimated total costs for equipping the West Sacramento headquarters, which will be comparable to the information provided in CalSTRS Budget Change Proposal #1 (BCP #1), as submitted to the Legislature on January 7, 2008. The report shall identify, among other things, 1) the total estimated capital, operating, and other costs for the project as originally approved by the Board, (2) a brief description of major categories of cost increases or decreases that occurred between the time the project was originally adopted and the submission of this report (including brief descriptions of the reasons for major cost increases), and (3) any other information that CalSTRS believes would be useful so that the Legislature can evaluate the system's management of project costs. The report shall also identify the extent to which CalSTRS regards the facility as an investment of the system's pension funds and, if applicable, the method that will be used to value the facility as a part of the system's asset base each year. The system also is asked to update the above report with regard to the costs for the new headquarters no later than six months after substantially all CalSTRS staff have moved to the new facility."

ISSUE 2: SUPPLEMENTAL BENEFITS MAINTENANCE ACCOUNT (SBMA) PROPOSAL

The Governor has withdrawn his original SBMA proposal and in the May Revise has recommended adoption of the option recommended by the California Retired Teachers' Association.

COMMENTS

As a reminder, here are the proposals as we discussed them prior to May Revise:

		Proposals		
	Current Law	Governor's (As of January 2008)	CalSTRS	California Retired Teachers Association
Targeted Purchasing Power Benefit	• 80 percent of value of initial benefit	• 80 percent	• 82.5 percent	• 85 percent
Constitutional Status of the Benefit	• Paid to the extent that funds on hand are sufficient	• Guaranteed by the state	• Guaranteed by the state	• Paid to the extent that funds on hand are sufficient
Effect on State Unfunded Liabilities (Teachers' Purchasing Power Benefits Only)	• No unfunded liability ever	• Large new unfunded liability—estimated at $4.7 billion	• Very large new unfunded liability—estimated at $6.9 billion	• No unfunded liability ever
State Contribution (As Percent of Teacher Payroll)	• Fixed at 2.5 percent	• 2.2 percent in 2008-09, with unconditional power for CalSTRS to set future rates	• 2.2 percent in 2008-09, with unconditional power for CalSTRS to set future rates	• Fixed at 2.25 percent
Constitutional Status of State Contributions	• Guaranteed	• Guaranteed	• Guaranteed	• Guaranteed
Schedule for Paying Over $200 Million of Interest Under Recent Court Order	• No schedule established	• Pay over three years beginning in 2008-09	• Unknown	• Pay over four years beginning in 2009-10
Payment Dates for Annual State Contributions	• November 1 in 2008-09; unspecified thereafter	• Split between November 1 and April 1 each year beginning in 2008-09	• Split between November 1 and April 1 each year beginning in 2008-09	• Split between November 1 and April 1 each year beginning in 2008-09

The Administration is now recommending adoption of the option labeled "California Retired Teachers' Association" above.

This proposal will provide increased the purchase power benefit to the STRS retiree's from 80% to 85%, decrease the State's annual contribution, maintain the existing liability structure, and set a plan for the payment of the interested owed to STRS. This will provide approximately $66 million in General Fund savings, plus starting payments on the interest owed in 09-10 instead of this year. This proposal also includes specifying that payments are to be made on Nov. 1 and April 1 of each year. Current code does not specify a date. This request requires TBL to implement. Staff should be directed to develop the appropriate language.

The Legislative Analysts office has also made two recommendations to be added to this package in regards to issues with determining the previous year's payroll, which determines the State's annual payment.

First, the LAO recommends that the Legislature approve trailer bill language expressing its intent to appropriate moneys up to the amount of $3 million in 2009-10 in order to provide additional funds to CalSTRS and hold the system harmless for its underreporting of Los Angeles Unified School District (LAUSD) teacher payroll in prior years. State contributions to CalSTRS are based on the system's reports of prior-year teacher payroll, and therefore, the underreporting resulted in the state making less in the way of contributions than it would have with an accurate payroll report from the system. The underreporting resulted from LAUSD's own problems with its new payroll system, as CalSTRS disclosed to the Legislature in a letter dated December 10, 2007. In that letter, CalSTRS declared its intent to seek this extra payment in 2009-10.

Second, LAO recommends that it approve trailer bill language to extend the amount of time that CalSTRS has to report prior-year teacher payroll to Finance and the Legislature each year. Currently, the law refers only to CalSTRS reporting this payroll amount each October. In some recent years, CalSTRS has wished to make subsequent adjustments to its October report, but the law arguably has not allowed them to do this.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: NEW AFFORDABLE HOUSING INNOVATION FUND PROGRAMS

The Governor's Budget proposes $559,000 (Bond Funds) and five two-year limited term positions to implement the Affordable Housing Innovation Fund Program, pursuant to the provisions of SB 586 (Chapter 652, Statues of 2007).

The bill specified the funds would be used for:

- Affordable Housing Revolving Development and Acquisition Program – Loan Fund ($25 million)
  - Provide loans for the purchase of real property for the development or preservation of affordable housing.

- Affordable Housing Revolving Development and Acquisition Program – Practitioner Fund ($25 million)
  - Primarily to provide funds to nonprofit entities for projects developing or preserving housing affordable to low and moderate-income households.

- Local Housing Trust Fund Matching Grant Program ($35 million)
  - Continues the program created under Prop. 46 to provide matching grants for local programs. 50 percent of the funds must be used for newly established trusts, and some funds must go towards rural trusts.

- Innovative Homeownership Program ($10 million)
  - This program allows HCD to draft guidelines for innovative projects that would reduce the cost of affordable housing.

- And the Construction Liability Insurance Reform Pilot Program ($5 million)
  - Funds a predevelopment program for best practices for state sponsored housing programs.

COMMENTS

Some of this legislation requires HCD to develop regulations regarding priorities and funding structure for the programs created under the Affordable Housing Innovation Fund Program. The Committee may wish to inquire about how regulations for the Local Housing Trust funds will apply to trust funds with multiple jurisdictions under them. Issue may exist with minimum/maximum grant amounts, time funds are available for, etc.

SB 586 (Chapter 652, Statues of 2007) is believed to have appropriated the $95 million in bond funds; this request is for the positions needed to implement the programs.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 1: ELECTRONIC ADJUDICATION MANAGEMENT SYSTEM (EAMS)

The Electronic Adjudication Management System (EAMS) is a computer-based, workers' compensation case management project currently under development by the DIR and intended to convert the Workers' Compensation Appeals Board (WCAB) to paperless processes. The stated goal of the EAMS project is to eliminate redundancy, create efficiency, and make the workers' compensation case management system more accessible to users while preserving confidentiality.

The approved FSR for this project projected costs of $24 million spanning five years; however, subsequent delays required re-appropriation of approximately $8.8 million in FY 2006-07 and an updated project report put the revised project cost at $36 million (as of October 2006). According to the DIR, the 50-percent increase in project costs were the result of unforeseen delays that occurred in the contract solicitation process and a higher-than-expected project bid.

The EAMS development and build phase is currently scheduled to be completed by the summer of 2008, followed by a pilot test of the system at all Division of Workers' Compensation district offices before the EAMS goes "live" for all users (including injured workers, law firms, insurance carriers, and healthcare providers) sometime late in 2008.

The Committee Chair has sent a letter to DIR expressing concerns over roll out plans and how they will affect the availability of staff during the roll out and training for EAMS. Further, the letter expressed concerns about "funding implications associated with this automated system, in terms of the sufficiency of financial resources needed to implement EAMS and permit full access by all parties to the Workers' Compensation system." Specifically, there are concerns regarding the number of licenses that will be available to users of the system.

COMMENTS

After reviewing information from the informational hearing, it may be appropriate to adopt the BBL below to allow some flexibility to address potential problems that arise during implementation of the EAMS project.

"Notwithstanding any other provision of law, upon approval of the Director of Finance with concurrence of the State Chief Information Officer, the Director of Finance may augment this item. Any augmentation shall not exceed 10 percent of the total project costs as identified in the latest Special Project Report approved by the State Chief Information Officer. These funds may only be used for the purchase of licenses, additional equipment or other expenditures necessary to increase and improve access to the workers' compensation Electronic Adjudication Management System." Standard 30 day Legislative notice language should also be included.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

ISSUE 1: PROJECTED STATEWIDE LAYOFF WORKLOAD

The Governor's budget proposes $3 million (General Fund) and 30 two-year limited-term positions to support and manage the projected layoff workload resulting from the statewide across-the-board BBR's.

BACKGROUND

DPA estimates that approximately 7,200 layoffs will be necessary as a result of the Governor's proposed budget. They estimate a layoff of this size would take approximately 18-24 months.

DPA has many responsibilities in the layoff process. They will need to review departmental layoff plans, calculate seniority credits to determine layoff order, review and adjudicate layoff appeals, as well as ensure that collective bargaining agreements are followed.

COMMENTS

According to the LAO, the State last implemented large numbers of position reductions in 2003–04*.* According to DPA, 9,300 positions statewide—most of them vacant positions—were eliminated in 2003–04, but only 291 employees lost their job. Another 929 were demoted, transferred, or opted to retire in lieu of a layoff. In that year, DPA increased its staff by 14.5 limited–term positions to manage layoff–related workload. Given the long timeframe required to complete the layoff process, departments sometimes must initiate the formal steps of the layoff process—increasing DPA's workload—even if, in the end, they are able to minimize or eliminate the need for layoffs through attrition or other means.

Taking all this into account, the exact amount necessary to be allocated for these purposes will not be known until decisions are made regarding actions in other areas of the budget.

ISSUE 2: BUDGET BALANCING REDUCTION – RURAL HEALTH CARE EQUITY PROGRAM (RHCEP)

The Governor originally proposed a Budget Balancing Reduction of $515,000 (General Fund) representing a 10 percent cut made as part of the Governor's 10 percent across the board cuts.

The Governor's May Revise proposal now requests complete elimination of the program, representing a $5 million (General Fund) savings.

BACKGROUND

The RHCEP provides reimbursements of certain health care expenses for State employees and annuitants who do not have access to an HMO. Annuitants that are not Medicare participants currently receive up to $500 annually, and Medicare participants currently receive up to $75 monthly.

COMMENTS

While it is not desirable to reduce payments to anyone, in a year where cuts are being proposed to programs that provide health care to the poor and children, it may be necessary to also eliminate payments such as these. They do produce a significant amount of savings.

The Committee asked for information regarding how many people are affected and where they are located. There are 7,776 annuitants in the program, with the largest participating counties being Shasta, Monterey, Lassen, Tuolumne, Sutter, Siskiyou, and Del Norte.