

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

TUESDAY, MAY 3, 1:30 PM  
STATE CAPITOL, ROOM 447

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<b>8780</b>	<b>MILTON MARKS "LITTLE HOOVER" COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY</b>

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## ITEMS TO BE HEARD

### ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

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The Department of Housing and Community Development (HCD) administers housing finance, rehabilitation, and community development programs; oversees housing planning statewide and code-setting processes; and regulates manufactured housing and mobile home parks. The Governor's Budget proposes \$563.2 million (\$13.3 million General Fund and \$549.9 million other funds) and 492.6 personnel years for the department's activities in fiscal year 2005-06.

All of the issues below, except Issue 6, initially were heard on March 29 and held open.

#### ISSUE 1: MIGRANT FARMWORKER HOUSING

The Governor's Budget proposes adoption of Trailer Bill Language to authorize the use of \$9.5 million of Proposition 46 Housing Bond funds in the Joe Serna, Jr. Farmworker Housing Grant Fund by the department's Office of Migrant Services (OMS) for rehabilitation and improvement of several state-owned migrant housing centers. Specifically, the \$9.5 million would be used for the following purposes:

- \$5.75 million to complete two migrant centers currently under construction and/or in the predevelopment stage but in need of supplemental funds. These centers are at Newell in Modoc County (\$2.5 million) and Planada in Merced County (\$3.25 million).
- \$850,000 to construct a required water system and perform long-delayed road and drainage repairs at the Dixon migrant center in Solano County.
- \$480,000 for a capital repairs reserve.
- \$2.42 million to continue the replacement of migrant center child care buildings that have outlived their useful lives at Los Banos in Merced County (\$900,000) and Artesi II in Merced County (\$1.5 million).

Proposition 46, approved in 2002, provided a total of \$200 million for the Joe Serna, Jr. Farmworker Housing Grant (JSJFWHG) Program, of which \$25 million was designated specifically for *migrant* farmworker housing. That program was established to encourage *non-state* entities (local governments and nonprofit organizations) to construct migrant farmworker housing. Under the terms of Proposition 46, uncommitted migrant housing funds will revert to the general JSJFWHG Program after August 2005, and then can be used for either year-round or migrant farmworker housing projects.

**Program Lags Far Behind Goal.** To date the department has awarded only \$2.8 million for migrant housing (excluding funding diverted to the state OMS centers). Pending applications may increase that total to \$5.1 million—still only a small portion of the \$25 million is designated for migrant farmworker housing by Proposition 46. These funds will help to provide 78 housing units and 406 beds in new or rehabilitated housing. Statewide needs for decent migrant farmworker housing, however, are in the thousands.

### Prior Action of the Subcommittee

At its March 29<sup>th</sup> hearing, the subcommittee directed the department to work with staff, housing advocates, and the agricultural community to (1) develop more flexible requirements for migrant housing funds and (2) identify up to \$10 million that could be made available for migrant housing grants or loans under revised requirements that could increase participation.

The current status of the \$25 million migrant farmworker set-aside is as follows:

<b>Proposition 46 Migrant Farmworker Housing Set-Aside</b>	<b>\$25,000,000</b>
Awards to date	\$2,756,000
Pending applications	2,375,000
<b>Subtotal, awarded and pending projects</b>	<b>\$5,131,000</b>
Funding authorized for HCD OMS Centers in prior budget trailer legislation	\$5,500,000
Administrative support reserve	1,000,000
<b>Remaining funds</b>	<b>\$13,369,000</b>
<b><i>Governor's Budget proposed increased authorization for HCD OMS Centers</i></b>	<b><i>\$9,500,000</i></b>
<b><i>Residual amount (would revert to the JSJFWHG Program in August 2005) if Governor's Budget proposal is approved</i></b>	<b><i>\$3,869,000</i></b>

**Almost \$8.2 million Potentially Available for New Projects.** In response to the subcommittee's directive, the department has determined that of the \$9.5 million it is requesting in the budget, the following projects have the highest priority or most urgency (although the department continues to request the full \$9.5 million): the Planada Migrant Center, water and road improvements at the Dixon Migrant Center, and the child care facility at Los Banos. In addition, it would be prudent to retain \$200,000 of the capital repairs reserve because such repairs typically total several hundred thousand dollars annually. The other projects could be deferred. These high-priority projects total \$5.2 million, leaving \$4.3 million of the \$9.5 million request that could be redirected. Together with the \$3.859 million residual amount, this would make available a total of \$8.159 million for new migrant project funding.

Proposition 46 authorizes the Legislature to amendments funded programs to improve their effectiveness and efficiency or to further the goals of the program. Accordingly, the subcommittee could adopt trailer bill language to make the \$8.2 million available after August for a migrant housing program with revised requirements intended to improve the effectiveness of the program and come closer to achieving the goal of Proposition 46.

**More Flexibility to Meet the Unique Needs of Migrant Housing Projects.** The department and staff have worked with housing advocates and representatives of agricultural employers to develop trailer bill language that would include the following provisions:

- Allow the department to make no-interest deferred loans to agricultural employers who assume responsibility for operating and maintaining the housing and providing at least

90 days per year of migrant occupancy. Loans could be for the full cost of the housing and would be partially forgivable starting in 10 years, with a maximum of half of the loan amount forgiven after 20 years.

- Allow loans or grants to local governments, nonprofits, limited partnerships, or joint ventures of agricultural employers and local agencies or nonprofits.
- Allow broad flexibility in the type of housing financed. The emphasis would be on affordable, durable, low-maintenance housing, including manufactured housing, motel conversions, or barracks-style housing, provided that they meet applicable state and federal standards for livability and durability.
- Allow the housing to be used for other purposes when not needed by migrant workers (provided that at least the annual 90-day requirement is met).
- Funding for the revised program would expire at the end of August 2006 (a one-year extension of the current deadline). Up to \$5.2 million of any remaining funds could be used for the deferred OMS projects, with amounts above that reverting to the general JSJFWHG Program.

#### COMMENTS

The department's existing migrant housing program has gotten little response. Housing advocates and growers believe that this is due, at least in part, to requirements for matching funds and to the exclusion of growers in the current program. Meanwhile, bond funds have been redirected to rehabilitate and construct the department's OMS Centers. The centers provide valuable housing, but they are relatively expensive to construct and operate, and they are sometimes far from worksites. The proposal outlined above is designed to address some of the perceived program limitations and promote more cost-effective types of housing located at or near work sites without a need for ongoing state operation and maintenance funding.

**ISSUE 2: HCD RENT CHARGES FOR FARMWORKER HOUSING**

Last year, the Legislature approved budget trailer legislation (included in SB 1102, Chapter 227, Statutes of 2004) that prohibited HCD from imposing rents for residents of any OMS Facility that exceeds 30 percent of the average annualized household incomes of residents of the facility without specific legislative authorization. However, this language was chaptered out by AB 868 (Parra) (Chapter 868, Statutes of 2004).

HCD indicates that the current rents fall below 30 percent of the average annualized household incomes of residents. Rental income helps cover the operating costs of the migrant centers, and the July 1, 2004, rent increase resulted in about a \$500,000 annual revenue gain. The table below illustrates the current rent structure:

Daily Rental Rates by Size of Unit			
	2 Bedroom	3 Bedroom	4 Bedroom
2003-04 Rates	\$7.50	\$8.00	\$8.50
2004-05 Rates	\$9.50	\$10.00	\$10.50
2005-06 Rates*	\$9.50	\$10.00	\$10.50
* HCD indicates it does not intend to increase rents in 2005.			

**COMMENTS**

At its March 29<sup>th</sup> hearing, the subcommittee held this issue open pending receipt of information from the department on the share of operating costs of the OMS centers covered by rental receipts. The department has provided the information shown in the following table:

Department of Housing and Community Development  
Office of Migrant Services (OMS) Program  
(dollars in thousands)

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
										(estimated)	(projected)
Operating Costs	\$6,474	\$6,214	\$6,211	\$7,175	\$ 7,292	\$7,888	\$8,023	\$8,022	\$8,337	\$ 8,641	\$ 8,998
Rental receipts	2,270	1,810	1,807	2,571	1,738	2,334	2,452	2,451	2,766	3,216	3,707
Share covered by rents	35.1%	29.1%	29.1%	35.8%	23.8%	29.6%	30.6%	30.6%	33.2%	37.2%	41.2%

The table illustrates that in most recent years rents have covered roughly 30 percent of operating costs. However, the proposed budget would increase the share provided by rents to 41.2 percent.

**ISSUE 3: EMERGENCY HOUSING ASSISTANCE PROGRAM (EHAP)**

The Governor's Budget proposes an EHAP funding reduction of \$864,000 – to \$3.1 million (General Fund). The program provides operating facility grants for basic homeless shelter operating costs such as rent, utilities and salaries of core administrative staff and services.

HCD makes grants to counties, cities and non profit groups. The amount of funding allocated to each county is based on a statutory formula which considers poverty and unemployment rates. A history of program funding is outlined in the following table:

State Operating Funding for Emergency Housing Assistance (in millions)								
	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05**	2005-06***
Funding	\$2.0	\$2.0	\$39.0	\$13.3	\$5.3	\$5.3	\$4.0	\$3.1
* Supported with special funds in 1998-99, General Fund thereafter.								
** The Legislature approved \$5.3 million, but the Governor reduced the amount to \$4 million.								
*** Proposed								

**Federal Funds and Bond Funds.** In addition to the state EHAP operating grants, the department indicates that it will provide \$6.7 million in the current year and \$7 million in 2005-06 of federal funds to local grantees for support of homeless programs. However, most larger cities and counties receive their funding directly from the federal government and those amounts are not included in these figures. The federal Department of Housing and Urban Development (HUD) recently announced a total of \$228.4 million of grants to California for the current annual funding cycle. The bulk of the money is allocated under competitive programs that provide funding for transitional and permanent housing and supportive services. The Emergency Shelter Grants component provides \$20.3 million for homeless prevention and emergency assistance (the federal funds that flow through HCD are included in this component).

Also, Proposition 46 provides a total of \$195 million of bond funds for construction costs of homeless shelters. The department indicates that it plans to allocate \$31 million of these funds annually in the current year and in 2005-06.

**COMMENTS**

1. The subcommittee deferred action on this issue at its March 29<sup>th</sup> hearing pending additional information on the amount of federal funds available to California for operating expenses of homeless shelters in 2005-06.
2. According to HCD, EHAP operating grants typically represent only about ten to twelve percent of the total operating budgets for emergency shelters. HCD estimates that \$3.1 million would serve 4,700 persons per day, while \$4.0 million would serve 6,100 persons per day.

**ISSUE 4: ECONOMIC DEVELOPMENT AREAS**

At its March 29<sup>th</sup> hearing, the subcommittee approved trailer bill language to sunset Enterprise Zone (EZ) fees on July 1, 2005, rather than July 1, 2006, as under current law. The issue of a funding source to replace the fee revenue was left open, however. Trailer legislation (SB 1097) for the 2004-05 Budget provided HCD authority, until July 1, 2006, to impose a fee, not to exceed \$10, for each application for an Enterprise Zone hiring tax credit voucher. Businesses are only required to pay the fee if they choose to take advantage of the tax credit. This fee funds the State's cost of the Economic Development Area Programs (\$668,000 and 6 positions), which would otherwise be a General Fund expense.

**COMMENTS**

1. It may not be feasible to end fees on July 1, 2005. Even if urgency trailer legislation were enacted prior to that date, some additional time probably would be needed to implement the change.

**ISSUE 5: REGIONAL HOUSING NEEDS ASSESSMENT (RHNA) MANDATE**

The Governor's Budget proposes to suspend the RHNA mandate in 2005-06. The subcommittee heard this issue at its March 29<sup>th</sup> hearing and held it open pending a decision on the mandate by the Commission on State Mandates (COSM).

Chapter 1143, Statutes of 1980 (AB 2853, Roos), significantly expanded the requirements of local housing elements by requiring additional analysis of local housing needs, particularly in relation to housing by income group. Each community is assigned numeric housing development goals by income (that community's "fair share" of housing) through a process administered by regional councils of government (COGs).

A 1981 determination by the former Board of Control determined that Chapter 1143 imposed reimbursable state-mandated costs on local governments. However, budget trailer legislation adopted with the 2004-05 Budget (SB 1102) eliminated some of the requirements of Chapter 1143, provided specific fee authority to COGs, and directed the Commission to reconsider the Board of Control's decision.

**COSM Determines RHNA Is Not a Reimbursable Mandate.** At its March 30<sup>th</sup> meeting, the COSM determined that costs of complying with the RHNA mandate are not subject to state reimbursement because all of the affected local entities have fee authority to cover those costs.

**COMMENTS**

1. Based on the decision by the COSM, this mandate item should be deleted. The mandate will remain in force, but no state reimbursement is needed.



<b>ISSUE 6: APRIL FINANCE LETTER—MOBILEHOME/MANUFACTURED HOME FEE REALIGNMENT</b>
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In an April 1 letter, the Department of Finance made the following request on behalf of HCD:

It is requested that Item 2240-001-0648 be increased by \$578,000 and Item 2240-001-0245 be increased by \$431,000 and that Item 2240-001-0001 be amended to reflect this change (for a total augmentation of \$1,009,000) to add 7.0 positions (6.6 personnel years) to provide increased support for requested inspections of mobilehomes, special occupancy homes, and manufactured homes. This will allow the Department of Housing and Community Development (HCD) to address backlogs and significantly decrease wait times for these requested inspections. This request will be supported by a fee increase of \$60 to \$66 per hour of inspection to \$196 for the first hour of inspection (includes travel costs) and \$82 for each subsequent hour. This fee adjustment would require an administrative change to regulations. The HCD indicates it has industry and consumer support for this proposal.

**Correction.** The department notes that the request should be corrected. The department intends to add 14 positions, starting January 1, 2006—or 7 personnel-years in 2005-06. Full-year funding will be needed in 2006-07.

<b>COMMENTS</b>
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- To staff's knowledge, no concerns have been raised regarding this proposal.
- The department indicates that an additional fee increase will be needed in 2006-07 to provide full-year funding for this proposal.

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**ITEM 0520 SECRETARY FOR BUSINESS TRANSPORTATION AND HOUSING**

<b>ISSUE 1: APRIL 1 FINANCE LETTER – TOURISM AUGMENTATION</b>
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In an April 1 Finance Letter, the administration is proposing to augment the Business Transportation and Housing Agency by \$7.3 million (General Fund) for the California Travel and Tourism Commission to promote tourism

<b>COMMENTS</b>
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In a prior hearing, the subcommittee approved a similar augmentation of \$5.0 million (General Fund) for the same purposes.

**ISSUE 2: SMALL BUSINESS ADVOCATE POSITION**

On April 26, 2005, the subcommittee acted to move the small business advocate position from the Office of Planning and Research (OPR) to the Business Transportation and Housing Agency (BTH). In order to fund the new position, the committee identified \$150,000 in General fund savings that was to be transferred to BTH for these purposes. In order to complete the transfer, the subcommittee will need to increase BTH's budget by \$150,000 General Fund.

**ISSUE 3: FEDERAL MILITARY GREENWAY STUDY**

Low altitude flight training is an important training tool for our federal armed forces. Throughout our state's network of military bases, the federal armed forces utilize an integrated system of military installations and special use airspace, connected by low level flight corridors to provide necessary training for military personnel. With SB 1462 (Kuehl), local governments were required to coordinate amendments to their master plans with the Federal Armed Forces to facilitate, where possible, the preservation of these flight paths.

Common also in Florida, Texas, Arizona, and Washington, the practice of coordinating local growth with the Federal Armed Forces has resulted in the additional benefit of providing added value to bases and preserving valuable green space around and in some cases between local bases. As an example, by aggressively pursuing this partnership the State of Florida has been able to create and implement the Florida Greenway Project, a 750,000 acre area used for low-altitude training operations around two primary air force bases. The Greenway project not only provides valuable training land for the air force and increases their value among the country's inventory of air force bases, it also preserves 750,000 acres for green space around the military bases.

**COMMENTS**

In order to explore additional opportunities for this practice, the Department of Defense is funding a study that is conducted at the state level of a major low level flight path. This study could be conducted by the Office of Aeronautics within BTH. To explore all possible benefits from preserving low level air space, the subcommittee may wish to expand the study – with the participation of the Resources Agency and the Office of Planning and Research - to include non-military issues such as the potential benefits of a Florida style military greenway. It is the understanding of staff that the Department of Defense would favorably consider a reimbursement request for the activities of the study as proposed in the following trailer bill language:

The following provision is added to Section 65352 of the Government Code to read:

*(10) The Office of Military Support shall work with the Resources Agency and the Office of Planning and Research to evaluate the use of a corridor concept to protect key low-altitude military training routes, military operational areas, and special use airspace within California, including but not limited to the R-2508 complex. The Resources Agency shall evaluate these corridors and airspace for areas having high ecological resource value, serving as biological connectors between major bioregions, areas suited for groundwater banking, and determine which of those areas should be*

*designated for protection or acquisition through existing and future conservation measures. The Office of Planning and Research shall evaluate the Northwest Florida Greenway project for its potential applicability in California. The Office of Planning and Research shall also include within this study an evaluation of alternatives to traditional land use controls for the protection of the military and ecological values of these corridors, military operational areas, and special use airspace. The Resources Agency and the Office of Planning and Research shall be reimbursed for their costs provided that those reimbursements are approved by the Department of Defense.*

## **ITEM 0845 DEPARTMENT OF INSURANCE**

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### **ISSUE 1: LAO RECOMMENDATION – ONLINE CREDIT CARD PAYMENT EFFICIENCIES SHOULD BE REVERTED**

The Department of Insurance (DOI) requests \$200,000 to cover costs for the fees it pays to credit card companies for licensing transactions to apply, renew, or schedule exams. The department does not charge applicants a fee to pay by credit card. To date, the department has absorbed these costs, which grew from just \$17,000 in 2002-03 to \$122,000 in 2003-04. The department notes that greater use of online application and payment generates efficiencies. Specifically, online filing and scheduling has reduced processing time from six to eight weeks down to two to three weeks. According to the department, these efficiencies fully offset the cost of credit card charges. Yet, the department plans to redirect the savings to reduce backlogs in other work. These savings in staff time, however, should be used to cover the credit card costs. Consequently, the LAO recommends the Legislature delete this request under the premise that if the department desires to address other workload, it should submit a proposal for the Legislature's consideration in the spring.

**ISSUE 2: FINANCE LETTER**

**Finance Letters:** The Department of Insurance requests augmentations from the Insurance Fund for the following purposes:

Title	Description	Cost (\$ in 000s)
Organized Automobile Fraud Activity Interdiction (Urban Grant) Program	One-time augmentation to support local district attorney's investigation, prosecution, and enforcement activities against specific automobile fraud activities in urban centers.	\$2,410 (Insurance Fund)
Automobile Insurance Fraud	One-time distribution of additional fee collections (relative to Governor's Budget projection) to supplement district attorney's automobile insurance fraud programs.	\$2,856 (Insurance Fund)
Workers' Compensation Insurance Fraud Program	One-time augmentation for prosecution of worker's compensation fraud in accordance with actions taken by the Governor-appointed Fraud Assessment Commission.	\$1,018 (Insurance Fund)

**ITEM 1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING****ISSUE 1: CASELOAD**

The Department of Fair Employment and Housing (DFEH) has jurisdiction over both private and public entities operating within the State of California, including corporate entities, private sector contracts granted by the State of California, and all State departments and local governments.

DFEH receives and investigates discrimination complaints in its fifteen district offices throughout the State. Eleven offices handle employment, public accommodations and hate violence cases and two offices handle housing cases. In addition, there are two legal offices which litigate cases and provide legal support to the district offices.

**Expired Cases.** As statute mandates, the DFEH must hear a resolve a housing or employment complaint brought to the department within a time frame of 1 year. Since FY 2001/2002, the Department has experienced budget reductions totaling \$3.1 million and position authority reduced by 127 positions. Consequently, between 2001/02, the DFEH has seen a substantial increase in case expiration as shown in the chart below:

Fiscal Year	Total Authorized Positions	Expired Cases
1999/2000	305.8	10
2000/2001	324.8	7
2001/2002	302.7	47
2002/2003	284.7	49
2003/2004	220.0	173

**COMMENTS**

The DFEH should be prepared to respond to the subcommittee on what actions it is taking - despite budget reductions - to reduce its rate of expiration for both employment and housing cases.

**ISSUE 2: APRIL 1 FINANCE LETTER**

In an April 1 Finance Letter, the administration is proposing to increase the department's budget by \$390,000 General Fund to account for a technical error in the Governor's budget that resulted in the Control Section 6.60 workers' compensation reduction being erroneously applied to operating expenses and equipment instead of staff benefits.

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 1: FINANCE LETTERS**

**The following Finance Letters are being proposed by the administration. Staff had no issues with the proposals.**

- A. Custodial and Maintenance Services:** The Administration proposes \$535,000 and 4.3 personnel years to allow the DGS to recover costs for operations and maintenance services provided to various client departments. Resources to reimburse the DGS are included in base budgets for the client departments.
- B. Prison Construction Inspection Staffing:** The Administration requests \$1,098,000 and 7.0 personnel years to allow the Department of General Services (DGS) to recover costs associated with construction inspection services for the Department of Corrections, San Quentin. Resources to reimburse the DGS are included in the project budget.
- C. Stanford Mansion Operations and Maintenance:** The Administration requests \$334,000 and 4.7 personnel years to allow the DGS to recover costs for operations and maintenance services provided to the Department of Parks and Recreation (DPR) for the Stanford Mansion. Resources to reimburse DGS are included in the 2005-06 Governor's Budget in the DPR budget.
- D. Department of Transportation San Diego Office Building:** The Administration requests \$609,000 and 4.0 personnel years to allow the DGS to recover costs to operate and maintain the California Department of Transportation San Diego building which is scheduled for completion in June 2006. Resources to reimburse DGS are included in a corresponding Finance Letter for CalTrans.

- E. Local Assistance Seismic Grants – Reappropriation.** The City of Richmond has not advanced two seismic retrofit projects sufficiently such that current year costs will not be eligible for grant reimbursement. In response to the delays, the City of Richmond has adopted a new building process to enable completion of the two seismic retrofit projects in two years. An additional reappropriation would be necessary in 2006-07 to complete the projects.

The Administration requests that Item 1760-492 be added to reappropriated funding authorized by Proposition 122, the Earthquake Safety and Public Building Rehabilitation Bond Act of 1990. This item would reappropriate up to \$1,833,588 for two local seismic grants that were reappropriated by Item 1760-492, Budget Act of 2004.

*1760-492—Reappropriation, Department of General Services. The balance, as of June 30, 2005, of the funds appropriated pursuant to Item 1760-101-0768, Budget Act of 1994 (Ch. 139, Stats. 1994), as reappropriated by Item 1760-492, Budget Act of 2004 (Ch. 208, Stats. 2004), are reappropriated and shall be available for expenditure through June 30, 2007.*

*Schedule:*

- (1) 3116-Richmond, Contra Costa –City Hall.....  
1,149,975
- (2) 3117-Richmond, Contra Costa –Hall of Justice .....  
683,613

*Provisions:*

1. *After June 30, 2007, these funds will no longer be available for expenditure and shall not be reappropriated.*

- F. Property Acquisition Law Account and Asset Sales:** The Administration requests that Item 1760-001-0002 be revised by amending the Budget Bill and adding trailer bill language related to the Property Acquisition Law Money Account and the management of the state's real property assets. The proposal included in the 2005-06 Governor's Budget would have required surplus property to be listed in the Budget Bill. This revised request would retain the current process of using an annual bill to declare properties surplus.
- G. Capital Outlay—Fund shift for Structural Retrofit of San Quentin Building 22.** The Administration requests to decrease General Fund support for the structural retrofit of the San Quentin Building 22 project by \$5 million and increase Earthquake Safety and Public Buildings Rehabilitation Fund support by an equivalent amount.
- H. Trailer bill: Cash Management Issues.** The Administration proposes to amend statute to conform with current practice on prepayments for centralized state services to other departments. Current practice requires departments to prepay full annual amounts due to central service agencies (e.g. DGS) at the beginning of a 12-month period. In previous years, departments made quarterly or monthly payments to DGS for services, however, initial capital needs and reconciliation problems necessitated departments providing the full amount to DGS at the beginning of the year. Departments may and do receive return advances when requested. DGS would still be subject to SCO audit authority.

**ISSUE 2: CENTRAL PLANT WATER QUALITY MONITORING**

The Department of General Services requests an ongoing augmentation of \$210,000 to fund monitoring and permit fees relating to the operation of the Department's Central Plant at 625 Q Street in Sacramento. This facility provides heating and cooling to 23 downtown Sacramento buildings.

**COMMENTS**

Based on discussions and information provided, the ongoing regulatory compliance workload becomes uncertain after 2006-07. Factors such as the central heating and cooling plant renovation, research findings on the Department's water quality monitoring responsibilities, and other evolving environmental compliance requirements could significantly alter the Department's workload for this activity.

**ISSUE 3: PROVISIONAL AUTHORITY FOR WORKLOAD ADJUSTMENTS**

The Department of General Services' budget item 1760-001-0666 includes authority for the department to increase spending authority from their revolving funds in order to provide services or purchase equipment for departments. That expenditure authority is usually reflected in the DGS budget. However, on some occasions, DGS is not aware of the corresponding expenditure authority provided to the client department. On those occasions, DGS must utilize the authority provided in this budget item to accommodate the client department's request. According to DGS, as a service provider to other departments, there are times when they need to increase its expenditure authority to accommodate unanticipated department requests.

**LAO Comment:** Departments examine their workload on an annual basis. If workload has increased, then the department should request additional resources through the annual budget process. This process provides the Legislature with the opportunity to review the proposal and then make decisions on the proposal *before* the department has actually hired staff and increased expenses. Under prior administrations, this was the practice, and DGS submitted workload growth requests through the annual budget process. Under the current administration, however, DGS has interpreted the budget provisions to allow anticipated workload growth increases. This interpretation unnecessarily limits the oversight role of the Legislature.

**LAO Recommendation:** It is important for DGS to be able to accommodate unanticipated department requests without delaying purchases or disrupting services. We also believe, however, that requests for anticipated workload should be provided during the annual budget process. In our view, DGS should follow the same process for anticipated workload growth increases as other departments. For this reason, we recommend that the Legislature clarify DGS' provisional authority to only authorize increases for unanticipated expenses.

**Staff Comment:** The following budget bill language will preserve DGS' authority, while clarifying that the provisions of item 1760-001-0666 should not be used for anticipated expenses. In addition, staff notes that the reporting requirements contained in provision 6 of

item 1760-001-0666 do not currently require sufficient information for appropriate Legislative review and should be amended as displayed below.

Provisions 3, 4, and 6 of Budget Item 1760-001-0666:

3. The Director of General Services may augment this item or any of Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602, by up to an aggregate of 10 percent in cases where (a) the Legislature has approved funds for a customer for the purchase of services or equipment through the Department of General Services (DGS) and the corresponding expenditure authority has not been provided in this item or (b) a local government entity or the federal government has requested services from the DGS. Any augmentation that is deemed necessary on a permanent basis shall be submitted for review as part of the normal budget development process. If the Director of the Department of General Services augments this item or Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602, the DGS shall notify the Department of Finance within 30 days after that augmentation is made as to the amount, justification, and the program augmented. Any augmentation made in accordance with this provision shall not result in an increase in any rate charged to other departments for services or the purchase of goods without the prior written consent of the Department of Finance. The Director of General Services shall not use this provision to augment this item or Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602 for costs that the DGS had knowledge of in time to include in the May Revision.

4. If this item or Item 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602, is augmented pursuant to Provision 3 by the maximum allowed under that provision, the Director of Finance may further augment the item or items in cases where (a) the Legislature has approved funds for a customer for the purchase of services or equipment through the DGS and the corresponding expenditure authority has not been provided in this item or (b) a local government entity or the federal government has requested services from the DGS. Any augmentation that is deemed to be necessary on a permanent basis shall be submitted for review as part of the normal budget development process. The Director of Finance shall not use this provision to augment this item or Items 1760-001-002, 1760-001-0003, 1760-001-0026, and 1760-001-0602 for costs that the Departments of Finance or General Services had knowledge of in time to include in the May Revision.

6. Any augmentation made pursuant to Provisions 3 and 4 of this item shall be reported in writing to the chairpersons of the fiscal committees of each house and the Chairperson of the Joint Legislative Budget Committee within 30 days of the date the augmentation is approved. This notification shall ~~identify the amount~~ be provided in a format consistent with normal budget change requests, including the amount, identification of, and justification for, the augmentation, and the program that has been augmented. Copies of the notification shall be provided to the Department of Finance.



**ITEM 2180 DEPARTMENT OF CORPORATIONS****ISSUE 1: AB 2693 - ABUSIVE LENDING PRACTICES - ADDITIONAL EXAMINERS**

The Department of Corporations is requesting \$287,000 to fund three additional examiner positions in the Lender-Fiduciary Program for the additional workload associated with Chapter 940, Statutes of 2004 (AB 2693, Wiggins). This law states that a licensee may not fail to disburse funds in accordance with commitment to make a loan that is accepted by the applicant or intentionally delay the closing of a loan for the sole purpose of increasing interest, costs, fees, or charges payable by the borrower.

**COMMENTS:**

In the Assembly Appropriations bill analysis for AB 2693, it was stated that there would be no additional costs associated with the implementation of this bill. In the March 15, 2005 hearing, the subcommittee held this item open due to concerns of the cost of implementation of the program. As an alternative to the administration's proposal, the subcommittee may wish to reduce the proposed funding for the proposal to \$96,000 (BCP minus \$191,000 and 2 positions) to fund complaint investigation and "red flag" audits. In addition, the subcommittee may want to adopt the following budget bill language to require the Department to report on compliance.

*Provision 3: The Department of Corporations shall report to the budget committees of each house of the Legislature and the LAO by January 10, 2007, on the level of non-compliance found with Chapter 940, Statutes of 2004, and any staffing changes requested based on the level of compliance.*