AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

TUESDAY, MAY 9, 2006, 1:30 PM
STATE CAPITOL, ROOM 447

CONSENT CALENDAR

ITEMS TO BE HEARD

ITEMS ON CONSENT

ITEM 8960 DEPARTMENT OF VETERANS AFFAIRS

CONSENT ISSUE #1: SPRING FISCAL LETTER--CAPITAL OUTLAY

The Department of Finance has issued a Spring Fiscal Letter for additional funding for the Member's Services building at the Veterans Home of Yountville.

BACKGROUND:

The Department of Finance has issued a Spring Fiscal Letter to appropriate an additional $1.3 million General Fund in the Department of Veterans Affairs for the Members Services Building Project. DVA reports that the additional funds are needed to repair the building and replace furniture and equipment destroyed during a fire in March 2006. The total project costs will be $3.3 million with an additional $2 million of federal funding expected to be appropriated in FY 07-08.

CONSENT ACTION:

Adopt Spring Fiscal Letter.

ITEM 8955 DEPARTMENT OF VETERANS AFFAIRS
ITEM 8960 DEPARTMENT OF VETERANS AFFAIRS—YOUNTVILLE
ITEM 8965 DEPARTMENT OF VETERANS AFFAIRS—BARSTOW
ITEM 8966 DEPARTMENT OF VETERANS AFFAIRS—CHULA VISTA

CONSENT ISSUE #1: SPRING FISCAL LETTER

The Department of Finance has issued a Spring Fiscal Letter that makes several changes to the Department of Veterans Affairs budget.

BACKGROUND:

The Department of Finance has issued a Spring Fiscal Letter that makes the following changes:

- Makes changes to the budget for homes to reflect federal revenue for the United States Department of Veterans Affairs per diem cost adjustment.
- Transfers $2.1 million in existing DVA staffing from the Veteran's Farm and Home Building Fund to the General Fund to reflect the actual work performed by these positions.
- Increases the DVA budget by $336,000 for increased maintenance and operations costs for the Meditech system.

CONSENT ACTION:

Adopt Spring Fiscal Letter.

CONSENT ISSUE #2: CONFORMING TO TECHNICAL SENATE ACTION REGARDING CLASSIFIED ADVERTISING

The Senate made a technical adjustment to the Department of Veterans Affairs budget.

BACKGROUND:

At the April 26, 2006 hearing, Senate Subcommittee # 4 reduced the DVA budget by $40,000 to eliminate funding for classified advertising for new positions for the Yountville annex and the behavioral wellness program.

CONSENT ACTION:

Conform to Senate.

ITEM 0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY

CONSENT ISSUE #1: EMPLOYER/EMPLOYEE TRAINING

The Governor's Budget includes $15,000 special fund for employer and employee training.

BACKGROUND:

The Labor and Workforce Development Agency proposes $15,000 of expenditure authority in the Labor and Development Fund for the purpose of funding employer/employee education efforts. Recent legislation (AB 279 of 2003 (Koretz) and 2004 SB 1809 (Dunn)) directs a portion of penalties assessed against employers that violate specific labor laws to be directed towards employer/employee training. The proposed expenditure authority is established to allow this training to occur in the budget year.

SENATE ACTION:

Augment this item from $15,000 to $100,000 on a one-time basis. Revenue received to date is sufficient to fund activity at the $100,000 level and making the funding one-time will allow the Agency to determine whether the 2005-06 level of revenue is sustainable.

STAFF COMMENT:

The Agency reports that no penalties have been assessed under AB 279, but several cases from FY 04-05 are pending that will likely result in a minimal amount of funding for the education activities in the budget year.

CONSENT ACTION:

Conform to Senate.

ITEM 0950 STATE TREASURER

The State Treasurer, a constitutionally established office, provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

STATE TREASURER
EXPENDITURES BY PROGRAM
(In Thousands)

Program	Actual 2004-05	Estimated 2005-06	Proposed 2006-07
Investment Services	$2,305	$2,695	$2,695
Cash Management	7,279	7,567	7,567
Public Finance	5,724	5,930	5,930
Securities Management	3,792	4,228	4,228
Administration and Information Services	9,831	9,852	10,020
Distributed Administration	-7,703	-7,671	-7,671
Total Expenditures (All Programs)	**$21,228**	**$22,601**	**$22,769**

The Treasurer's proposed spending includes $6.1 million from the General Fund, essentially unchanged from the current year. Proposed staffing is 222.8 personnel-years—the same amount as in the current year.

CONSENT ACTION:

Approve as budgeted.

ITEMS 0956--0985 FINANCING ENTITIES

The Governor's Budget includes ongoing funding for the following financing authorities, committees, and commissions that generally function in association with the State Treasurer's Office:

0956 Debt & Investment Advisory Commission

The California Debt and Investment Advisory Commission (CDIAC) (formerly the California Debt Advisory Commission) promotes and improves the practice of public finance in California by providing responsive and reliable information, education, and advice. CDIAC was created in 1981 to assist state and local governments in effectively and efficiently issuing, monitoring and managing public debt. Upon the enactment of Chapter 833, Statutes of 1996, the Commission became CDIAC and its responsibilities were expanded to include an investment component in its municipal education program and the development of information and resources related to the investment of public funds. The Commission consists of nine members including the State Treasurer, who serves as chairperson; the Governor or, upon his designation, the Director of Finance; the State Controller; two local government finance officers appointed by the State Treasurer; two members of the Assembly appointed by the Speaker of the Assembly; and two members of the Senate appointed by the Senate Committee on Rules. The Governor's Budget requests $2.2 million (special fund) and 14 personnel-years of staff for the commission in 2006-07.

0959 Debt Limit Allocation Committee

The California Debt Limit Allocation Committee allocates tax-exempt private activity bond authority for the State of California. Private activity bonds may only be used by the private sector for projects and programs that provide a public benefit. The federal government limits the amount of tax-exempt private activity bond authority that can be issued in a state on an annual basis. The limit of bond authority in 2005 is calculated by multiplying the state population by $80. California has the largest population, and thus has the largest debt (or tax-exempt bond) limit, which totaled over $2.8 billion in 2005. The Committee's allocation of tax-exempt bond authority results in the issuance of bonds by cities, counties, and state agencies. The bonds are purchased and used by the private sector and are not an obligation of the state or of the federal government.

The Committee administers six programs that are funded through the allocation and issuance of tax-exempt private activity bonds. Those programs are: (1) the Qualified Residential Rental Project Program, (2) the Single-Family Housing Program, (3) the Extra Credit Home Purchase Program, (4) the Industrial Development Bond Project Program, (5) the Exempt Facility Program, and (6) the Student Loan Program. The Committee is comprised of the State Treasurer as Chairperson, the Governor, or upon his designation, the Director of Finance, and the State Controller. The Committee is funded on a fee-supported basis. The Governor's Budget requests $2.2 million (special fund) and 14 personnel-years of staff for the commission in 2006-07. The Governor's Budget requests $1.1 million (special fund) and 9 personnel-years of staff for the committee in 2006-07.

In accordance with existing law, the budget includes a $3.5 million transfer from the General Fund to the California Debt Limit Allocation Committee Fund to repay a loan from that fund to the General Fund made in 2004.

0965 Industrial Development Financing Advisory Commission

The California Industrial Development Financing Advisory Commission (CIDFAC) creates employment opportunities and supports local economic development by providing low cost financing through the issuance of Industrial Development Bonds (IDBs) to manufacturers through its partnership with local governments. CIDFAC independently reviews IDB applications to ensure compliance with federal and state statutes and approves the sale of IDBs by local authorities. The State Treasurer serves as chairperson of the Commission. The other members are the Director of the Department of Finance, the State Controller, and the Commissioner of the Department of Corporations. The Governor's Budget requests $557,000 (special fund) and 3 personnel-years of staff for the commission in 2006-07.

0968 Tax Credit Allocation Committee

The California Tax Credit Allocation Committee (CTCAC) assists in the development and maintenance of quality rental housing communities affordable to low-income Californians.
CTCAC works in public/private partnerships to assist with project development, while fulfilling its responsibilities as a credit agency through project compliance monitoring. CTCAC coordinates its functions with state and local housing fund providers and with private fund investors, when providing and maintaining quality, affordable housing. The CTCAC consists of seven members, including the Treasurer who is designated as chairman, the Governor or Director of Finance, the State Controller, the Director of the Department of Housing and Community Development, the Executive Director of the California Housing Finance Agency, and two local government representatives. The Governor's Budget requests $3.3 million (special fund) and 26 personnel-years of staff for the committee in 2006-07.

In accordance with existing law, the budget includes two transfers totaling $66 million from the General Fund to the Tax Credit Allocation Fee Account to repay loans to the General Fund made in 2004.

0971 California Alternative Energy and Advanced Transportation Financing Authority

The Authority was established in 1980 as the California Alternative Energy Source Financing Authority to "promote the prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources." The Authority later became the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) in 1994, when the statute was amended to include development and commercialization of advanced transportation technologies. CAEATFA consists of five members: the State Treasurer, who serves as the chairperson of CAEATFA, the State Controller, the Director of Finance, the Chairperson of the State Energy Resources Conservation and Development Commission (the California Energy Commission), and the President of the Public Utilities Commission. The Governor's Budget requests $194,000 (special fund) and 1 position for the authority in 2006-07.

0977 Health Facilities Financing Authority

The California Health Facilities Financing Authority (CHFFA) issues revenue bonds to assist qualified private nonprofit corporations or associations, counties, and hospital districts in financing or refinancing the construction, equipping or acquiring of health facilities. CHFFA also administers the Children's Hospital Program established by Proposition 61. CHFFA was established by Chapter 1033, Statutes of 1979. CHFFA consists of nine members: the State Treasurer, the Director of Finance, the State Controller, two public members appointed by the Senate, two public members appointed by the Assembly, and two public members appointed by the Governor. The Governor's Budget requests $1.2 million (special funds and bond funds) and 13.5 personnel-years for support of the authority in 2006-07, and the budget estimates that the authority will spend $250 million from Proposition 61bond funds for projects under the Children's Hospital Program.

Finance Letter Request. In a March 30th letter, the Department of Finance requests the addition of 1 position and $76,000 from Proposition 61 bond funds to address workload in the bond program.

0985 School Finance Authority

The California School Finance Authority (CSFA) was created in 1985 to oversee the statewide system for the sale of revenue bonds to reconstruct, remodel or replace existing school buildings, acquire new school sites and buildings to be made available to public school districts (K-12) and community colleges, and to assist school districts by providing access to financing for working capital and capital improvements. CSFA consists of the following three members: the State Treasurer who serves as chair, the Superintendent of Public Instruction, and the Director of Finance. The Governor's Budget requests $672,000 (federal funds and bond funds) and 3 positions for support of the authority in 2006-07. In addition, the budget includes $9.7 million of spending from federal grant funds.

CONSENT ACTION:

Approve as budgeted and adopt Finance Letter for the Health Facilities Financing Authority.

ITEM 1705 FAIR EMPLOYMENT AND HOUSING COMMISSION

The Fair Employment and Housing Commission is a quasi-judicial body responsible for the promotion and enforcement of the state's civil rights laws concerning discrimination in employment, housing, public accommodations, family, medical and pregnancy disability leave, hate violence and threats of violence. The seven members of the Commission are appointed by the Governor and confirmed by the Senate. For 2006-07, the Governor's Budget requests $1.3 million ($1.1 million General Fund) and 7 positions. The funding request is a 1.2 percent increase over the current year, and the number of positions remains unchanged.

ITEMS TO BE HEARD

ITEM 8955 DEPARTMENT OF VETERAN'S AFFAIRS
ITEM 8960 VETERAN'S HOME OF CALIFORNIA-- YOUNTVILLE
ITEM 8965 VETERAN'S HOME OF CALIFORNIA-- BARSTOW
ITEM 8966 VETERAN'S HOME OF CALIFORNIA—CHULA VISTA

ISSUE #1: FEDERAL VETERANS' BENEFITS ELIGIBILITY

The Subcommittee will discuss California's lower than average participation in federal veteran's benefits.

BACKGROUND:

Nationwide, only 11.53 percent of all eligible veterans receive federal veteran's benefits. In California, fewer than 10.85 percent of 2,310,968 veterans receive these benefits. If California was at the current national average, 18,000 more veterans would be eligible for benefits and $198 million in federal funds could flow to the State.

The budget includes $250,000 General Fund and 0.9 PYS to increase outreach to veterans. Most of the funding will be used to hire retired annuitants the run the outreach program. The outreach will include a "Thank You For Your Service" program that will contact new veterans that have been recently released from active duty. The proposed outreach will also target National Guard and Reserve commands.

CVSO REQUEST:

County Veterans Service Officers has requested $2.7 million General Fund to increase the number of claims officers across the State. The State currently reimburses counties $2.3 million for Veterans Services Officers, but the CVSO's believe that the $5 million per year identified by the Legislature in 1989 as the intended level of funding is the minimum level needed to adequately handle the workload associated with California's veteran population.

The CVSO intends to prioritize World War II Veterans and their widows with this additional staffing to ensure that this group utilizes the benefits entitled to them.

VETERANS OF FOREIGN WARS REQUEST:

The Veterans of Foreign Wars (VFW) has requested $50,000 for outreach in the budget year. The VFW wants to use the funds to provide federal benefits referral training to its post officers at its 438 posts statewide and produce outreach materials for use in these activities. The VFW hopes to generate at least an additional 850 additional applications for federal benefits in the budget year with these funds.

The Department notes that current statute prohibits DVA from contracting with any veteran service organization until CVSO are funded at the $5 million per year funding level.

STAFF COMMENT:

The Department believes that it would cost over $4.2 million to fully fund veteran's outreach. The Department notes that every $1 spent on outreach and case management has yielded $100 in benefits for the State's veterans.

The Subcommittee may wish to explore the potential leadership role that DVA could play in coordinating CVSO, VFW, and other organization's activities to link veterans with State and federal benefits. Other states have actively engaged stakeholders to effectively identify barriers and challenges faced by veterans and coordinate all available resources to improve the lives of veterans and their families. California could consider beginning such a process in the budget year so that resources dedicated to this purpose are allocated effectively and efficiently.

One possible step in reaching this solution is to have DVA prepare a report that would examine possible strategies for increasing the number of California veterans getting State benefits. The department shall consult with stakeholders in developing this report and will consider the impact that demographics, county of residence, and service records have on the attainment of these benefits. The report will also include an analysis of best practices from other states. The report should be submitted to the legislature by February 1st, 2007.

8940 MILITARY DEPARTMENT

ISSUE #1: YOUTH CHALLENGE PROGRAM

The Department of Finance has issued a Spring Fiscal Letter that establishes a second Youth ChalleNGe program.

BACKGROUND:

The National Guard's Youth Challe*NG*e Program began in 1991, when the House Joint Armed Service Committee tasked the National Guard to develop a plan to help at-risk teens and "add value to America". By providing values, skills, education, and discipline to young people using the structure and esprit de corps of the military model, the Youth Challe*NG*e Program began a three year pilot program in 1993. Fifteen states participated in the pilot program, which became a permanent National Guard program in 1996. There are now 28 states operating 30 Challe*NG*e programs throughout the nation.

California opened its first ChalleNGe program in 1998, the Grizzly Youth Academy, in San Luis Obispo. The mission of the academy is three-fold. First, to provide a safe, structured environment that promotes academic achievement. Second, to develop leadership traits which improve self-esteem, pride, and personal confidence. Third, Grizzly Academy teaches life skills that will benefit young men and women in the adult working world (such as budgeting, personal hygiene, punctuality, teamwork, responsibility, and cooperation). Since 1999, fifteen classes totaling over 1600 cadets, have completed the program. Earlier this year, the Grizzly Youth Academy was honored by the National Guard Bureau (NGB) as the "Best All-Around Program" in the nation. Grizzly Youth Academy receives more than 750 applications per year. The target graduation rate is 300 students per year. Grizzly Youth Academy is forced to wait list approximately 300 *applicants per year due to space availability at Camp San Luis Obispo.*

The Spring Fiscal Letter would establish a second Youth ChalleNGe program for a $3.9 million ($900,000 General Fund). The new program would take place in Los Alamitos Joint Forces Training Base. The first class starts January 13, 2007. Second class starts July 14, 2007. The target graduation rate is 200 students per year.

OUTCOMES OF THE GRIZZLY YOUTH ACADEMY:

Grizzly Youth Academy has served more than 1600 at-risk youth since 1998. A total of 525 Youth Challenge Graduates earned their GED. Another 180 graduates earned their High School Diplomas and 130 graduates passed the new California High School Proficiency Exam (CHSPE). On average, Grizzly Academy graduates experienced a 1.8 grade level increase in Reading and Math as measured by the Adult Basic Education Examination (TABE). The typical Challenge graduate performed 65 hours of community service while in residence and collectively the Grizzly cadets have performed more than 100,000 hours of community service since the program's inception in 1998.

Of particular significance is the placement rate of Grizzly graduates at the completion of the post-residential phase of the program (17 ½ months). For the past four classes, 85% of the Grizzly graduates were reported to be either attending school full-time, working full-time or a combination of the two (part-time student/part-time employment).

CONSENT ISSUE #2: SPRING FISCAL LETTER FOR CAPITAL OUTLAY

The Department of Finance has issued a Spring Fiscal Letter to address capital issues.

BACKGROUND:

The Department of Finance has issued a Spring Fiscal Letter that makes changes to the Military Department's Capital Outlay budget. There are two changes made by this letter:

1. Provides $2.5 million for the construction of the Roseville Armory Expansion and Renovation project. Total project costs will be $6 million ($3 million General Fund). The proposal also contains provisional language to allow the expenditures of federal funds.

2. Allows unspent funding for small projects to be reappropriated in the budget year. The Department comments that many of these project needed to be delayed because of a high demand for the services of the Army Corps of Engineers in the Gulf States this year.

CONSENT ACTION:

Adopt Spring Fiscal Letter.

CONSENT ISSUE #3: SPRING FISCAL LETTER—STATE ACTIVE DUTY PAY ADJUSTMENT

The Department of Finance has issued a Spring Fiscal Letter that adjusts the budget for the State Active Duty Pay rate.

BACKGROUND:

The Department of Finance has issued a Spring Fiscal Letter that makes changes to the Military Department's budget. The proposed change would reduce the budget by $470,000 ($112,000 General Fund) to reflect the net effect of the annually Congressionally-mandated State Active Duty Pay increase. The Governor's January 10 Budget included $1.7 million next year for this pay increase and the Spring Fiscal Letter adjusts this amount to the expected level of expenditure in the budget year.

CONSENT ACTION:

Adopt Spring Fiscal Letter.

CONSENT ISSUE #4: CONFORMING TO TECHNICAL SENATE ACTIONS

The Senate took two actions on Military Department budget that make technical changes.

BACKGROUND:

Senate Subcommittee #4 took two actions in the Military Department budget that make technical changes to the budget:

1. Adopted the following budget bill language to require reporting from the Internal Control Office:

   No later than April 10, 2007, the department shall provide the Legislature a report on the findings of the Internal Control Office. This information shall include, at a minimum, (a) identified control deficiencies based on the initial risk analysis, (b) any improvements made to date, and (c) a work plan for addressing the remaining deficiencies as well as the criteria for prioritizing the subject and scope of ongoing internal reviews.

2. Makes one new position for IT security personnel for three-year limited terms. Federal funding for systems security positions may be forthcoming in October 2008 as part of the Department of Defense budget for the subsequent fiscal year. The Administration and Legislature should reexamine this need during 2008-09 budget development.

CONSENT ACTION:

Conform to Senate.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE #1: MINIMUM WAGE LAW ENFORCEMENT ACTIVITIES

The Subcommittee will explore DIR's activities in enforcing minimum wage laws.

BACKGROUND:

Although California has over 17.9 million employees statewide, the State of California issued only 81 citations for minimum wage law violations in 2005, a historic low in citations levels.

Last year, the Legislature cited minimum wage enforcement as a priority and included $3 million and 30.4 PYs to increase the enforcement of the minimum wage law. The Governor vetoed this augmentation.

VETO MESSAGE:

I am deleting the legislative augmentation that provided $3,000,000 and 30.4 personnel years to expand enforcement efforts by the Labor Commissioner and the Bureau of Field Enforcement. In the years prior to my arrival in Sacramento, literally dozens of new laws were added to the California Labor Code. Unfortunately, while all these new laws were being added to the Labor Code, the number of labor law officials actually enforcing the laws was slashed dramatically. In fact, when my Administration began in November 2003, not a single enforcement official was based in the Central Valley. This disregard for the importance of vigorous labor law enforcement allowed the underground economy to flourish.

In January, I proposed, and this Budget creates, the Economic and Employment Enforcement Coalition (EEEC). The EEEC will coordinate underground economy enforcement activities by the Department of Industrial Relations (DIR), the Employment Development Department, the Contractors State License Board, and others. The Budget provides the EEEC with 63 positions, including $3,026,000 and 27.5 personnel years for DIR. Also, a concerted effort was made to create these positions without using General Fund dollars, allowing those dollars to be used for other high-priority needs.

DIR COMMENTS ON MINIMUM WAGE ENFORCEMENT:

The Department has noted that some minimum wage enforcement violations can also potentially violate other labor laws and would not be cited minimum wage cases when enforcement does occur. For example, if a worker is hired for 10 hours for a set rate of $60, it violates both overtime and minimum wage rules. In this case, the Department will look at this case as overtime enforcement, rather than the minimum wage violation.
The Department also notes that the number of minimum wage citations increase when increases to the minimum wages are made and then decline once the law has been in effect for some time. Since the State's current minimum wage of $6.75 has not changed since 2002, DIR would expect less violations of the minimum wage law.

DIR believes that the EEEC has allowed the Department to target more industries that have traditionally paid lower wages than prior to the unit's formation last year.

COMMENTS FROM THE CALIFORNIA RURAL LEGAL ASSISTANCE FOUNDATION:

The California Legal Assistance Foundation has requested $3 million and that budget bill language be adopted to address minimum wage enforcement. The Foundation believes that California has a vast underground economy where theft of wages is common and virtually unchallenged. The Foundation believes that the EEEC effort is too small to make address the scope of the problem.

The Foundation's proposed Budget Bill Language would be:

Of the amount provided in [ ], $3,000,000 shall be solely expended for additional field enforcement efforts by the Labor Commissioner and the Bureau of Field Enforcement regarding minimum wage and overtime law compliance in construction, agriculture, garment manufacturing, janitorial and restaurant employment.
(a) The department is authorized to establish positions for the purposes of expanding the additional field enforcement efforts.
(b) The new funds shall be divided equally between urban and rural enforcement efforts;
(c) The new enforcement efforts funded by the augmentation shall not be used to supplant funding previously intended by Division of Labor Standards Enforcement to go into field enforcement activities for this fiscal year.
(d) The Department shall provide the Legislature with a description of additional minimum wage and overtime law compliance activities undertaken with this augmentation, as well as an assessment of whether a continued special focus on minimum wage and overtime law compliance is warranted. This update shall be provided during budget hearings.

STAFF COMMENT:

Ongoing discussion about a proposed increase to the minimum wage underscores the need for effective and legitimate enforcement of the law.

ISSUE #2: CHANGES TO WORKER'S COMPENSATION

DIR has proposes several adjustments in the budget associated with the enforcement of Worker's Compensation laws.

BACKGROUND:

The budget contains four proposed changes related to recent legislation regarding worker's compensation. These changes are as follows:

1. Return-to-work—The budget includes $577,000 and one PY for payments to small employers who comply with the Return-to-work program. The program is proposed to be implemented for the first time in the budget year.

2. Repeal of the $100 Initial Lien Filing Fee—The Budget trailer bill proposes to repeal a requirement that medical-legal providers pay a $100 filing fee when filing an initial lien on a claim. The administration believes that the fee requirement is not resulting in the settlement of claims and is a significant workload burden. The Department believes it will need an additional $294,000 and 5 PYs to address the additional workload if the lien filing fee is not repealed.

3. Position Upgrade—The budget includes $971,000 to reclassify 134.5 positions into a higher paid classification that reflect the more complex nature of the work performed.

4. Security Upgrade—The budget includes $238,000 for the California Highway Patrol to provide security at the Worker's Compensation's two largest offices in Van Nuys and Los Angeles and $60,000 to begin security measures such as staff IDs and physical barriers between staff and public areas in all district offices.

5. Extension of Limited Term Positions—The budget continues four PY of limited-term legal positions for an additional two years. These positions are associated with the implementation of the worker's compensation legislative changes contained in SB 899 of 2004. The Legal Unit received 5.5 limited-term positions in 2004, but believes that workload justifies continuing 4.0 of these positions until 2008.

LAO RECOMMENDATION:

The LAO recommends transferring unused fund balance of the Workplace Health and Safety Revolving Fund to the General Fund*.* The administration proposes trailer bill language to transfer the remaining $507,000 fund balance of the dormant Workplace Health and Safety Revolving Fund to the Workers' Compensation Administration Revolving Fund. The larger revolving fund currently has sufficient funding. Even with $3.8 million in DWC requests to pay for increased facilities, personnel, and security costs, DIR projects that the Workers' Compensation Administration Revolving Fund will maintain a $65 million fund balance at the end of 2006-07, which represented 43 percent of revenues (without an increase in employer assessments or other workers' compensation fees). Moreover, the fund balance of the Workplace Health and Safety Revolving Fund was accumulated during the years in which the General Fund provided the bulk of DWC funding. The monies are derived from penalties, making them eligible for transfer to the General Fund. Given the state's fiscal condition, the LAO recommends amending the administration's trailer bill language to transfer the unused balance of the Workplace Health and Safety Revolving Fund to the General Fund.

TRAILER BILL ON LIENS:

The DIR budget includes Trailer Bill Language to impose a 60-day wait period for the filing of medical-legal liens to discourage the practice of filing liens before allowing a reasonable period for payment. The Applicant Attorney Association raised concerns that the language could be applied to other liens. The DIR has proposed changes to this language to address this concern.

STAFF COMMENT:

Adopting the LAO recommendation would result in $507,000 General Fund savings.

CONSENT ISSUE #3: GARMENT MANUFACTURERS SPECIAL ACCOUNT FUND

The Subcommittee will explore language to make the Garment Manufacturers Special Account Fund more flexible.

BACKGROUND:

The Garment Manufacturers Special Account Fund pays for unpaid wage claims in the garment industry. The Department of Finance issued DIR deficiency request for $988,000 on Nov. 7, 2005 for the Garment Worker Fund. The fund is currently solvent and should end the year with a positive balance of about $1.5 million.

Currently, the budget only appropriates $200,000 for this item, leaving much of the fund balance unappropriated. As a result, claimants to the fund must wait for months for their reimbursement

DIR is requesting Budget Bill Language for the budget year to allow the Department to appropriate more funding for this account if additional claims are made against the account.

BUDGET BILL LANGUAGE:

7350-001-0481--For support of Department of Industrial Relations, for payment to Item 7350-001-0001, payable from the Garment Manufacturers Special Account . . . 200,000

Provisions:

> *1. Upon approval by the Department of Finance and notification to the chairpersons for the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, the Department of Industrial Relations may augment this item for the payment of valid claims against and up to the fund balance.*

COMMENT FROM SWEATSHOP WATCH:

Sweatshop Watch, an advocacy group for garment workers, notes that the $200,000 appropriated in the current year was exhausted in September of the current year, only ten weeks into the fiscal year. Since that time, claimants have had to wait for the current deficiency to address the shortfall in the funding, even though the fund has sufficient resources to pay the claims.

SENATE ACTION:

Senate Budget Subcommittee #3 approved the Administration's budget bill language and increased the appropriation from $200,000 to $500,000.

STAFF COMMENT:

The proposed provisional language should address the problem identified by the advocates. However, the Subcommittee may wish to increase the appropriations level of the item to avoid unnecessary delays in payment due to notification process stipulated in the provisional language.

The fund receives about $450,000 to $500,000 of additional funding each year as part of the fee assess on garment manufacturers. The Subcommittee could increase the appropriations level to $500,000 to better reflect the current claiming pattern for the program and roughly equal the amount of additional fee revenue expected in the budget year. This would avoid delays if the appropriation level is met early by claims, but would allow for oversight if the claiming levels appeared to be surpassing the revenue to support them.

CONSENT ACTION:

Conform to Senate.

CONSENT ISSUE #4: SPRING FISCAL LETTER

The Department of Finance has issued a Spring Fiscal Letter that reappropriates $8.8 million for the Electronic Adjudication Management System.

BACKGROUND:

The Department of Finance has issued a Spring Fiscal Letter that reappropriates $8.8 million for the Electronic Adjudication Management System. This funding was not expended in the current year due to delays in the contract procurement process and will be expended in the budget year.

CONSENT ACTION:

Adopt Spring Fiscal Letter.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE #1: BACKFILL OF FEDERAL FUNDING

The Employment Development Department has used EDD Contingent Funds to backfill for lost federal revenue in several areas.

BACKGROUND:

The Governor's budget proposes using $6.9 million State EDD Contingency Funds to support current federal programs that do not have sufficient funding to continue at their current level. The funding would be used in the following way:

Proposed Use	Lost Federal Funds	Amount Replaced	Comment
One-Stop Center Staff (one-time funding)	Wagner-Peyser	$2.8 million	Backfills funding for 36 existing positions at one-stops that perform in-person services for UI claimants.
Veterans Program (3 year funding)	Veteran's Employment and Training Services	$1.5 million	Funds 19 positions that cannot be supported at the current level of federal funding because of cost of doing business increases.
Unemployment Insurance Identity Verification (ongoing funding)	US Department of Labor Anti-Fraud Funding	$2.6 million	Backfills lost federal funding for 38 existing positions that perform certain identity verification and anti-fraud activities.
Total		**$6.9 million**	

LAO RECOMMENDATION:

The LAO recommends rejecting the proposal to use Contingent Funds for the VETS program because the department has not provided sufficient justification for the higher staffing level. This action will save $1.5 million in General Fund. This proposal requests funds to restore staffing of the VETS program to 210 positions, the level in 2004-05. However, the department provides no specific justification for this desired staffing level. Presumably, because the VETS program is a case management service, a loss of staff would increase the ratio of cases per staff member. However, the administration has not provided evidence that such an increase in caseloads has occurred or that a corresponding impact to service quality would result from the current lower level of funding.

In previous years, the legislature has identified services to veterans as a policy priority. Specifically, in 2001-02, the legislature directed WIA discretionary funds to the VETS program when federal funding was reduced. The Governor's budget has included this funding ever since. If the legislature wishes to direct additional funds towards the VETS programs, it could redirect from any of the program proposals outlined in the WIA discretionary funds schedule discussed previously. If the legislature chooses to redirect WIA funds, the LAO recommends reducing the funding from $1.5 million to $1.2 million to reflect midrange salaries.

In addition, the LAO recommends adopting the following Trailer Bill Language:

It is the intent of the Legislature that state-supported Veterans Employment Training services (VETs) meet the same performance standards as those required for federal Workforce Investment Act services for veterans. Following any fiscal year in which state funds support the VETs program, the Employment Development Department shall report annually to the Legislature on the following performance measures. This report shall be provided on or before November 1.

(1) Number of Veterans receiving individualized, case managed services
(2) Rate of Veterans who receive individualized, case managed services entering employment
(3) Retention rate for Veterans who enter employment
(4) Earnings change/earnings replacement within six months for Veterans entering employment

SENATE ACTION:

The Senate approved the backfill of federal funds, but reduced the funding by $210,000 to adjust the position funding from top-step to mid-step, and adopted the LAO placeholder trailer bill language.

STAFF COMMENT:

EDD Contingency funds are fungible with the General Fund, so Subcommittee could consider other priorities with these funds if this request was not approved.

How does the level of funding for this programs look in the President's 2007 budget?

ISSUE #2: NURSING SIMULATORS

The Department of Finance has issued a Spring Fiscal Letter to appropriate $4.5 million for nursing simulators at EDD.

BACKGROUND:

The Administration requests a one-time augmentation of $4.5 million General Fund to establish six clinical simulation laboratories (at $750,000 each) that would be used to provide clinical training to nursing students.

In the May Revision of the 2005-06 Budget, the Governor proposed a Nursing Education Initiative, which among other expenditures, proposed $2.5 million (General Fund) for 9 regional clinical simulator grants of up to $275,000 each. The Legislature shifted a portion of the simulator funding to other nursing programs and the final Budget Act included $750,000 for 3 clinical simulator grants. The Department indicates the cost of a simulator was underestimated in last year's request.

During last year's discussion, many different options were identified to encourage schools to provide more nursing slots and encourage individuals to pursue careers in nursing. Last year's final package included: funding to forgive student loans for those who obtain a Master's Degree or Doctorate and teach in a nursing program; employer-based training of nursing assistants and aids who are considering becoming Registered Nurses; and funding for the California State University System and the California Community College System to increase nursing slots.

SENATE ACTION:

The Senate denied this Spring Fiscal Letter.

STAFF COMMENT:

According to the California Nursing Association, recent experience in other states has shown that simulators are not that effective at helping to create new nurses.

Staff understands that the three clinical simulator grants approved last year have not yet been awarded.

ISSUE #3: DISLOCATED WORKER FUNDING FORMULA

A change to the Bureau of Labor Standards statistics has impacted the State's allocation of Dislocated Worker funding.

BACKGROUND:

In 2004 the Federal Bureau of Labor Statistics removed agricultural and governmental labor force data from calculation of Mass Layoff Statistics. Mass Layoff Statistics are one factor used by the state to calculate the allocation of Workforce Investment Act (WIA) Displaced Worker funds. The absence of this statistical information changed the overall allocation of these funds among the local areas, decreasing the allocation for some areas, including Fresno, and increasing it for others. Last year, EDD used historical data on mass layoff statistics to estimate the loss of funding for areas of the State affected by this federal change and offered supplemental funds to mitigate this effect.

EDD does not intend to continue this mitigation in the budget year. The Fresno County Workforce Investment Board has requested that the Subcommittee consider taking action to mitigate the impact of this change on its allocation.

STAFF COMMENT:

Mitigating the impact on Fresno's WIB would likely result in a loss of WIA funding for other parts of California.

CONSENT ISSUE #4: SPRING FISCAL LETTER FOR ACES SYSTEM

The Department of Finance has issued a Spring Fiscal Letter to adjust the timeline for the implementation of the Automated Collection Enhancement System (ACES) computer system.

BACKGROUND:

The Department of Finance has issued a Spring Fiscal Letter that reduces funding for the ACES computer system by $219,000 ($194,000 General Fund) to reflect the most current estimate of project costs for ACES.

CONSENT ACTION:

Adopt Spring Fiscal Letter.

ITEM 1110-1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

ISSUE 1: MEDICAL BOARD OF CALIFORNIA: FUNDING FOR THE IMPLEMENTATION OF SB 231(CHAPTER 674, STATUTES OF 2005)

The Governor's budget proposes $3.9 million in FY 2006-07, $3.5 million in FY 2007-08 and $91,000 in ongoing special fund appropriations as well as .5 permanent and 10.0 two-year limited term positions for the Medical Board of California (Board) to implement SB 231 (Figueroa), which increases physicians' initial licensure fees and biennial renewal fees from a current ceiling of $610 to $790. The bill also extends the sunset date for the Board to 2011 and makes several changes to implement the recommendations from an Enforcement Monitor, who was authorized by the Legislature, to study the Board's enforcement and diversion programs.

BACKGROUND:

Enforcing the laws governing physician misconduct thus ensuring safe medical practices is one of the Board's most critical functions. However, the 2002 Board's sunset review revealed numerous and significant problems in its enforcement and public disclosure practices. That same year, the Legislature enacted SB 1950, Chapter 1085, Statutes of 2002, requiring the DCA to hire an independent Enforcement Monitor to monitor and evaluate the Boards' disciplinary system and procedures and to reform its enforcement program and operations as well as improve the efficiency of the overall disciplinary system. SB 1950 also required the Board to undergo another sunset review in 2005.

In November 2004, the Enforcement Monitor issued its "Initial Report: Medical Board of California Enforcement Program Monitor", which provided a number of recommendations. The most significant recommendations from the report included in SB 231 are the following:

- Extension of the Board's sunset date from January 1, 2007 to January 1, 2011
- An increase in physician license and renewal fees
- Establish a vertical prosecution model for investigations
- Eliminate the Board's ability to recover its costs of investigations directly from licensed physicians who are the subjects of investigation

Proposed Funding. According to the Board, the requirements of SB 231 will generate fiscal impact associated with new and ongoing workload as follows:

- Requires the Board to contract with an independent entity to conduct a study of the Board's peer review process and report to the Legislature no later than July 31, 2007. The estimated one-time cost of $400,000 in FY 2006-07 is based upon information obtained three years.
- Requires the Little Hoover Commission to study and make recommendations on the role of public disclosure in the public protection mandate of the Board. This study would

begin upon availability of funds which would consist of a one-time cost of $150,000 in FY 2006-07 and would be completed no later than July 1, 2008.

- Changes the Board's license and biennial renewal fees from $600 to $790. Since the Board would implement this change effective July 1, 2006, it would need $8,000 one-time funding in FY 2006-07 for DCA's Office of Information Services (OIS) to perform 80 hours of programming at a cost of $100 per hour.

- Authorizes the Board to cite and fine a physician for not providing requested documents within 15 business days of receipt of the request and any additional authority to fine a physician. This would generate additional Attorney General (AG) workload of 382.5 hours annually. The Board estimates an annual cost of $60,435 in FY 2006-07 and ongoing. In addition, the Board would need $31,000 in FY 2006-07 and ongoing to fund 0.5 Staff Services Analyst positions to address the increased workload.

- Requires the Senior Assistant Attorney General of the Health Quality Enforcement Section to assign attorneys to work on location at the intake unit of the Board to assist in evaluating and screening complaints and to assist in developing uniform standards and procedures for processing complaints. The AG's office estimates a need for two attorney positions to meet this mandate. The Board would need $546,000 in FY 2006-07 and 2007-08 to pay for these services.

- Implements a vertical prosecution model where the investigator must work more closely with AG staff. The Board would need $751,000 in FY 2006-07 and $963,000 in FY 2007-08 to fund ten two-year limited term positions as well as equipment to integrate the Board and AG's computer systems. These amounts would also restore funding of $218,510 for medical consultants to a total of 16,500 annual hours. The Board is currently budgeted at 12,787 annual hours. In addition, the Board estimates a need of $1,912,274 in FY 2006-07 and FY 2007-08 to fund the services for another seven attorney positions at the AG's office to establish the vertical prosecution model.

COMMENTS:

This issue was included on the April 25, 2006 agenda but was held open pending implementation issues being worked on by fiscal and policy staff:

Revised Funding Proposal. Committee staff has worked with the LAO and Department of Finance to address staffing and audit concerns and understands both entities would support the following changes:

- Re-class the 10.0 requested limit-term positions to permanent. This would recognize the Monitor’s recommendation to restore staff. Any additional staffing augmentations would be deferred to future budgets so the sufficiency of revenue to support additional staff could be further analyzed.

- Augment funding by a net of $175,000 to recognize cost savings of $150,000 for one audit and to add funding of $325,000 for the diversion audit and the fiscal audit.

- Additionally add the following budget bill language:

Provision to Item 1110-001-0758

Of the amount appropriated in Schedule (1) of this item, $325,000 shall be available for expenditure as follows:

(a) Upon acceptance of a request by the Joint Legislative Audit Committee, $250,000 may be expended to reimburse the Bureau of State Audits for a performance audit pursuant to Section 1 of Chapter 674, Statutes of 2005.

(b) Upon acceptance of a request by the Joint Legislative Audit Committee, or upon adoption of legislation during the second year of the 2005-06 regular session that removes Joint Legislative Audit Committee from the selection process, $75,000 may be expended to reimburse the Bureau of State Audits or another entity for a financial review pursuant to Business and Professions Code Section 2345(i).

ISSUE 2: APRIL 1ST DEPARTMENT OF FINANCE (DOF) LETTERS: VARIOUS ITEMS

In an April 1st letter, the DOF proposes the following amendments to the January 10th budget:

It is requested that the Items pertaining to the Department of Consumer Affairs (DCA), Boards and Bureaus below, be amended to reflect the following changes:

Dental Board of California—Increase Item 1110-001-0741 by $79,000 to provide ongoing resources for changes to the Board's Licensure by Credential Program, as mandated by Chapter 4, Statutes of 2006 (SB 299).

Bureau of Automotive Repair—Increase Item 1111-002-0582 by $3,675,000 for the purpose of increasing participation in the Vehicle Retirement Program. Under this proposal, certain eligibility requirements would be relaxed in order to expand the number of voluntary vehicle retirements.

iLicensing Project—It is requested that various DCA Budget Bill Items be increased to provide for the implementation of the iLicensing system.

It is also requested that Control Section 4.55 be deleted in conjunction with this action, and that provisional language be added to Item 1111-002-0702, to require the DCA to report on specified aspects of the iLicensing Project.

Language to require the Department to report on the ongoing workload associated with iLicensing:

Item 1111-002-0702
Provisions:
XX. The Department of Consumer Affairs shall report to the Department of Finance and the Joint Legislative Budget Committee on the status of the iLicensing project and shall provide a workload analysis for the positions established to support this project by September 1, 2009. The Department of Finance may eliminate any position established in the 2006 Budget, which supports the iLicensing project, if the workload cannot be justified by the report.

COMMENTS:

Budget staff have no issues with the Dental Board or the Bureau of Automotive Repair request to increase their funding in 2006-07.

In regards to the iLicensing project, Budget staff would like to note the funding changes below that would be implemented if this April 1st letter is approved.

The total cost for developing and implementing the iLicensing project is estimated to be $12.7 million plus $1.4 million in credit card fees for a total cost of $14.1 million. The Fall BCP requested $3.7 million in FY 2006-07, $3.6 million in FY 2007-08 and $2.3 million in FY 2008-09 and ongoing to fund the project.

2006-07 Governor's Budget (BCP)					
	2005/06	**2006/07**	**2007/08**	**2008/09**	**Ongoing**
Total project costs (per FSR)	$1.2	$5.1	$4.3	$2.1	$12.7
Credit Card Costs		0.1	0.6	0.7	1.4
Total iLicensing costs	**$1.2**	**$5.2**	**$4.9**	**$2.8**	**$14.1**
Less Redirection	-1.2	-1.5	-1.3	-0.5	-4.5
Budget Augmentation Requested	**$0**	**$3.7**	**$3.6**	**$2.3**	**$9.6**

The April 1st letter changes the total cost for developing the project to an estimated $13.0 million plus $1.3 million in credit card fees for a total cost of $14.3 million. The April 1st letter requests $1.3 million in FY 2006-07, $3.7 million in FY 2007-08, $3.8 million in FY 2008-09 and $2.4 million ongoing to support this project.

2006-07 iLicensing April 1st Letter						
	2005/06	**2006/07**	**2007/08**	**2008/09**	**2009-10**	**Total**
Total project costs (per FSR)		$2.6	$4.4	$3.9	$2.1	13.0
Credit Card Costs				0.6	0.7	1.3
Total iLicensing costs	**$0**	**$2.6**	**$4.4**	**$4.5**	**$2.8**	**$14.3**
Less Redirection		-1.3	-0.7	-0.7	-0.4	-3.1
Budget Augmentation Requested	**$0**	**$1.3**	**$3.7**	**$3.8**	**$2.4**	**$11.2**

Budget staff had concerns with the proposed language. After conversations with DOF and the LAO, Budget staff recommends that subcommittee members consider the following language for approval:

The Department of Consumer Affairs shall report to the Department of Finance and the Joint Legislative Budget Committee at the conclusion of the project, but no later than September 1, 2009, on the status of the iLicensing project including implementation by boards and bureaus, funding allocations, preliminary usage information among new/existing licensees, and a workload analysis for the positions established to support this project. The Department of Finance may eliminate any position established in the 2006 budget, which supports the iLicensing project, if the workload cannot be justified by the report. In addition, in no case may a fee increase be imposed to support this project.

ITEM 1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The Department of Fair Employment and Housing (DFEH) is responsible for protecting the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. One of the department's primary functions is the timely processing and resolution of discrimination complaints.

As shown below, the Governor's proposed budget includes a total expenditure of $20.7 million ($15.2 million General Fund) for the department, an increase of $1.6 million over the current year. Almost all of the increase is from the General Fund.

Department of Fair Employment and Housing

Fund	Actual 2004-05	Estimated 2005-06	Proposed 2006-07
General Fund	$13,617	$13,634	$15,237
Federal Trust Fund	4,939	5,470	5,508
Total Expenditures (All Funds)	**$18,556**	**$19,104**	**$20,745**

The budget proposes 212 personnel-years (PYs) of staffing for DFEH in 2006-07, an increase of 14.2 PY (7.2 percent).

ISSUE 1: COMPLAINT AND CASELOAD PROCESSING

- **Discrimination Complaint Caseload.** The Governor's budget proposes an increase of $1.1 million and 13 positions to increase the number of discrimination complaints that DFEH can accept and to complete more investigations within the statutory one year time limit. Last year, the Assembly version of the 2005-06 Budget included an augmentation of $600,000 and nine positions to improve caseload processing (this augmentation, however, was not included in the enacted budget).

- **Appointment Scheduling and Application Processing**. The Governor's Budget includes $464,000 and two positions for DFEH to automate its appointment scheduling and processing of "Right to Sue" applications, in which complainants seek permission to file a discrimination lawsuit in place of a DFEH investigation.

ISSUE 2: MEDIATION PROGRAM SHOWS PROMISE

The department generally handles complaints on an investigation basis. After a complaint is filed, DFEH conducts an investigation to determine if there is a basis for the complaint. If a basis exists, then the department proceeds to bring an action before the Fair Employment and Housing Commission against the employer or landlord. The process is adjudicatory, with lawyers representing the parties and appeal to the courts. In addition, the department issues a large number of "right to sue" letters enabling complainants to go directly to the courts.

During 2001-02, the department conducted a voluntary mediation pilot program. An evaluation of the results of the pilot program found it to be very cost-effective compared with the normal investigative process. Mediation resulted in faster resolution of complaints and improved satisfaction on the part of complainants and respondents alike.

Some of the specific findings were as follows:

- The average time to process intake for a mediated claim was 4.9 hours versus 17.75 hours for an investigated case.
- Mediated cases were closed in an average of 69.1 days versus 245.2 days for investigated cases.
- The average cost of mediated a case was $633 compared with $2,407 for investigated cases.

Mediation resulted in a 56-percent dispute resolution rate, and a significant portion of those whose complaints were not resolved felt that mediation resulted in progress.

COMMENTS

DFEH Staff Cost Estimate. The department's chief counsel has estimated the cost of establishing two 5-person mediation units—one in Northern California and one in Southern California to be $1,076,000 for ongoing annual costs (primarily staff), and $482,000 for one-time costs to establish the units—a total of more than $1.5 million. However, this estimate assumes that all staff would be in place and the offices fully functional for the entire year. However, less funding would be needed in 2006-07 because it would take time to establish the units and hire and train staff. Furthermore, it may be advisable to establish one unit initially and then expand gradually. Providing $750,000 in 2006-07 should be sufficient to finance this approach.

What about Savings? Given the findings of the pilot project, mediation should result in significant savings. For example, there might be an opportunity to offset the $1.1 million augmentation for investigations included in the Governor's Budget (see Issue 1 above). Alternatively, mediation could enable DFEH to process and resolve significantly greater numbers of complaints. Currently, many complainants simply bypass the department's investigative process and receive right-to-sue letters, resulting in expensive and time consuming litigation and workload for the courts.

Staff Suggestion. Given the established potential for mediation to result in more effective and efficient resolution of complaints, the subcommittee may wish to place this issue in Conference by adopting an augmentation of $750,000 to establish a mediation program in 2006-07. This would give DFEH the opportunity to develop a more specific cost estimate and to identify offsetting savings and/or additional caseload targets for consideration in Conference.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Subcommittee initially heard the budget of the Department of Housing and Community Development (HCD) on March 14th.

Loan Repayments from the General Fund. The budget includes loan repayments from the General Fund to various housing special funds totaling $29.9 million in 2006-07. These loans were made to assist the General Fund budget in 2002 and 2003 and existing law requires repayment when needed by the programs funded from the special funds. The largest repayment--$24.25 million—is to the Housing Rehabilitation Loan Fund, and is needed to restore a minimal loan-loss reserve. A remaining unpaid $43.4 million remains to be repaid in subsequent years (the largest component is $34.8 million still owed to the Housing Rehabilitation Loan Fund).

ISSUE 1: MIGRANT FARMWORKER HOUSING AND CHILDCARE CENTER REPLACEMENT

The Governor's budget proposes a General Fund augmentation of $3.4 million for state migrant farmworker housing centers under the department's Office of Migrant Services (OMS). The augmentation consists of the following amounts:

1. $2.35 million to reconstruct two state-built OMS daycare facilities at the San Benito Center in Hollister ($1.1 million) and at the Buena Vista Center near Watsonville ($1.2 million) in order to address health and safety standards.

2. $1.025 million to increase the budget for operation and maintenance for all of the migrant centers. This augmentation would be an ongoing increase in base funding for operation and maintenance.

BACKGROUND

The OMS operates (through grants to local housing agencies) 25 state-owned Migrant Centers throughout California. These centers provide 2,103 units of seasonal housing to approximately 11,000 farm workers and family members annually. Because they serve many families and they are located in rural areas, the centers often include child care centers. Privately operated labor camps provide some 26,000 units, most often for single workers.

The department has determined that six of its OMS Center child care facilities will need replacement by 2009-10 at a total estimated cost of $8.5 million (in current dollars). Of this amount, $2.4 million would be funded by the 2006-07 Budget for the two facilities in the worst shape. An additional total of $2.7 million would be requested in 2007-08 and 2008-09 to reconstruct child care centers at Gilroy and French Camp. Funding of $3.4 million for the remaining two centers (Artesi III at French Camp in San Joaquin County and Parlier in Fresno County) would be requested in 2009-10. The department estimates that repairing OMS child care facilities would cost roughly half as much as the proposed replacement/reconstruction, but that replacement/reconstruction will result in a much longer useful life. The six child care facilities serve about 500 infants and preschoolers.

Operating expenses for the centers are funded by the General Fund and rents. General Fund support has declined from $5.4 million in 2003-04 to $5.3 million in 2004-05 and 2005-06. Rents, which were recently increased, provide $3 million (compared with $2.8 million in 2003-04). The augmentation request would increase General Fund support to $6.3 million. The department plans to use the increased funding to increase operating contracts with local agencies by $215,000, increase annual priority repairs and replacement of furniture and equipment by $250,000 (to $500,000), and to replace funding in the current year from a carryover balance. According to the department, maintenance and repair at the OMS centers has declined substantially in the past few years due to funding limitations.

COMMENTS

The subcommittee held this issue open on March 14th pending a report from the department on the potential for alternative funding sources, such as bond funds for construction or any OMS operating fund carryover balance. The department has not been able to identify any alternative capital funding sources that are currently available, and it does not foresee any operating carryover balance remaining at the end of the current year.

ISSUE 2: EMERGENCY HOUSING ASSISTANCE PROGRAM (EHAP)

The Subcommittee heard this issue on March 14th and held it open at that time.

The Governor's budget reduces the General Fund support for the EHAP Program, which provides State grants (averaging about 10 percent of costs) for local agency-operated homeless shelters, by $864,000, for a total of $3.1 million in funding for fiscal year 2006-07.

For several years, the Governor has proposed this reduction, which has been restored by the Legislature. In signing the 2005-06 Budget Act, Governor Schwarzenegger explained that he was sustaining the funding restoration on a one-time basis in anticipation of an expansion of supportive housing for chronically mentally ill homeless persons. The 2005-06 budget established a multiyear allocation of $40 million of Proposition 46 housing bond funds, plus additional funds from the California Housing Finance Agency and Proposition 63 mental health funds to increase housing for the chronically mentally ill portion of the homeless population. HCD estimates that it will spend $18 million of the Proposition 46 bond funds in the current year and $14.5 million in 2006-07.

BACKGROUND

The proposed funding level would be less than the amount provided in any year since 1999-00, as shown in the table below.

State Operating Funding for Emergency Housing Assistance (in millions)								
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05*	2005-06	2006-07**
Funding	$2.0	$39.0	$13.3	$5.3	$5.3	$4.0	$4.0	$3.1

* The Legislature approved $5.3 million, but the Governor reduced the amount to $4 million.
** Proposed

Homeless shelters and programs also receive substantial amounts of federal funding for operations and federal funds and state bond fund provide capital funding.

COMMENTS

- The proposed reduction will reduce the number of homeless persons that shelters can serve by 1,400 per day statewide, according to HCD.
- The department indicates that the expansion of housing and supportive services for the homeless mentally ill population will take time to implement and is not expected to have any significant effect on the overall homeless population in 2006-07.

ISSUE 3: ENTERPRISE ZONE FEES

The Subcommittee heard this issue on March 14th and held it open at that time.

The Governor's Budget proposes trailer bill language to eliminate the January 1, 2007, sunset date for Enterprise Zone application fees, which support HCD's costs of administering the economic development area programs. Absent the fee authority, HCD would need General Fund support of $698,000 (half this amount in 2006-07) to replace the existing fee revenue.

BACKGROUND

The State currently designates four types of economic development areas intended to attract and retain businesses in economically-challenged communities. Currently, there are 42 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). The HCD is charged with administering the economic development area programs. However, the tax benefits, primarily tax credits for hiring qualified employees, are claimed on corporate or personal state income tax returns, and so they are subject to verification and audit by the Franchise Tax Board (FTB). The HCD is budgeted six positions and $698,000 to administer the program, with revenue derived from fees, not to exceed $10, for each application by businesses for an Enterprise Zone hiring voucher.

Substantial Amounts of Tax Benefit. HCD indicates 44,721 businesses used EZ tax credits and 2,789 businesses used tax credits in all the other economic development areas in 2003. The budget estimates that state tax revenue in 2006-07 will be reduced by $350 million due to the tax credits. Additionally, the FTB estimates a total accumulated corporate tax carryover credit of $650 million. For comparison with the $10 application fee, each hiring voucher can result in up to approximately $35,000 of tax benefit (over several years) for the business filing the application.

COMMENTS

Will HCD Oversee the Other Types of "Zones?" Existing law does not currently allow for the imposition of fees to cover state costs of overseeing the LAMBRA, MEA, and TTA programs. Furthermore, existing law limits use of the Enterprise Zone fees to overseeing Enterprise Zones only. The department should explain how it intends to oversee the other types of zones and what source of funding it will use.

ISSUE 4: FINANCE LETTER REQUESTS

In a letter dated March 30th, the Department of Finance has requested the following changes to the HCD budget:

Housing Performance System (Issue 504)—Increase Item 2240-001-0929 by $286,000, and amend Item 2240-001-0001 to reflect this change, to replace an outdated information technology system used to track submittal of housing element data and produce annual reports. Trailer bill language is proposed to allow Housing Rehabilitation Loan Funds to be used for this purpose.

Update Statewide Housing Plan (Issue 505)—Increase Item 2240-001-0929 by $200,000, and amend Item 2240-001-0001 to reflect this change, to allow the Department of Housing and Community Development to update and publish the Statewide Housing Plan. Trailer bill language is proposed to allow Housing Rehabilitation Loan Funds to be used for this purpose.

Transfer from the Housing Rehabilitation Loan Fund to the General Fund (Issue 507)—Add Item 2240-107-0929 to transfer $7.514 million from the Housing Rehabilitation Loan Fund to the General Fund. Budget Item 2240-107-0001, Budget Act of 2000, transferred $25.0 million to the Housing Rehabilitation Loan Fund for purposes of providing local assistance for the Downtown Rebound Project. However, there have not been sufficient applications for this program to utilize the remaining funds and $7.514 million is available for transfer back to the General Fund.

Trailer Bill to Redirect Proposition 46 Housing Bond Funds to Transit-Oriented Housing (Issue 501)—Propose trailer bill language to provide $15.0 million in unused Proposition 46 funds originally set aside for the purpose of funding student housing be reallocated to the Transit-Oriented Housing Component of the Downtown Rebound Program. Proposition 46 set aside $15.0 million for student housing through the Multifamily Housing Development Program, but provided that funds would be available to the Adaptive Reuse Component of the Downtown Rebound Program if the student housing funds remained available after 24 months. However, demand for funding for the adaptive reuse component is low and it is likely that redirected funds would go unused for an extended period of time. Since Proposition 46 authorizes legislative adjustments for programmatic effectiveness or efficiency, trailer bill language is proposed to redirect the $15.0 million to the Transit-Oriented Housing Component of the Downtown Rebound Program. (See Attachment 1)

COMMENTS

- **Revenue to General Fund.** The General Fund impact of these requests is a revenue gain of $7.5 million from the transfer of unused Downtown Rebound funds.

- **Overly Convoluted Funding Proposal.** The Finance letter requests $286,000 for the Housing Performance System and $200,000 to update the Statewide Housing Plan—both funded by new appropriation items from the Housing Rehabilitation Loan Fund. Trailer Bill language also is requested to allow the use of remaining funds from a 2000-01 General Fund appropriation to the loan fund to be used for these purposes. There is no need for this convoluted funding arrangement or for the Trailer Bill Language.

Instead, the funding ($486,000) should be transferred from the Housing Rehabilitation Loan Fund to the General Fund and the two requests should be included in the departments General Fund support appropriation. There would be no net General Fund impact.

ISSUE 5: REGIONAL HOUSING NEEDS ASSESSMENT (RHNA)

The Subcommittee heard this issue on March 14th and held it open at that time, pending information from HCD on the cost of these activities in 2006-07.

As part of the process of preparing housing elements of local general plans, 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).

BACKGROUND

Formerly, the COGs' RHNA duties were considered a reimbursable state mandate. However, the Commission on State Mandates determined last year that the COGs RHNA responsibilities do not constitute a reimbursable state-mandated local program. Last year, the Legislature adopted Budget Bill Language for Caltrans that allocated at least $1 million to COGs in 2005-06 for RHNA costs from the $5 million of federal funds provided for regional blueprint planning (regional planning for transportation needs that also involves many of the COGs). However, the Governor vetoed this language. Although statutory authority exists to impose fees to support the RHNA process, the COGs and local governments argue that these fees would be difficult and cumbersome to administer. The Governor's Budget does not include any funding to assist COGs to carry out their RHNA responsibilities.

COMMENTS

According to the department, the following COGs will have RHNA activities during 2006-07:

Association of Bay Area Governments (ABAG)
Association of Monterey Area Governments (AMBAG)
Fresno Council of Governments
Kern Council of Governments
Sacramento Council of Governments (SACOG)
Southern California Council of Governments (SCAG)

Cost Projections for 2006-07. At the department's request, these COGs have identified costs totaling $1 million to $1.5 million. The largest component of this cost is for SCAG, which is projecting a range of $500,000 to $1 million. However, HCD points out that SCAG, unlike some of the other COGs, did not submit a line-item budget to justify their estimate and that SCAG should be able to realize economies by coordinating their RHNA tasks with their Regional Transportation Plan and Regional Blueprint transportation planning grant. Staff also notes that the COGs will receive approximately $150,000 from the General Fund in 2006-07 (and annually for the subsequent 14 years) as payment for deferred mandate cost claims for past years during which the RHNA task was treated as a reimbursable state-mandated local program.

Based on the minimum cost estimate compiled by HCD, staff suggests that the subcommittee consider providing $1 million (General Fund) for the department to provide grants to the six COGs with RHNA tasks in 2006-07.

2240-103-0001—For local assistance, Department of Housing and Community Development, for grants to regional councils of governments…………………………..$1,000,000

Provisions:

1. These funds shall be available for allocation to those regional councils of governments that have Regional Housing Needs Assessment tasks scheduled for the 2006-07 fiscal year. The Department of Housing and Community Development shall request funding applications and determine allowable and necessary costs. If total allowable and necessary costs exceed the amount appropriated in this item, the department shall pro-rate or prioritize grant awards to remain within that amount.

ISSUE 6: SELF-HELP HOUSING PROGRAM—CONSTRUCTION MANAGEMENT GRANTS

The California Coalition for Rural Housing is requesting a $1 million General Fund augmentation to fund Construction Management Grants for the Self-Help Housing Program. Under this program, nonprofit and community organizations provide training and construction management to help groups of lower-income families build their own homes. By contributing their "sweat equity," the families are able to acquire affordable homes. Typically, families pitch in together to build a small development of homes, primarily in rural or semi-rural locations.

Proposition 46 (the 2002 Housing Bond) provided a total of $205 million of bond funds for Self-Help Housing. Of this amount, $10 million was provided for construction management assistance (the other funds are to finance the acquisition, development and construction costs). According to HCD, all of the Proposition 46 construction management funds have been allocated, and nothing remains for new funding commitments in 2006-07. Prior to Proposition 46, the budget had provided between $1 million and $2 million annually from the General Fund for this purpose.

COMMENTS

New Bond Funding Available (If Voters Approve). SB 1689 (Perata) places Proposition 1C on the November general election ballot to approve the Housing and Emergency Shelter Trust Fund Act of 2006, which would authorize a total of $2.8 billion in bonds. This amount includes a new $10-million allocation for construction management grants under the California Self-Help Housing Program. These funds, if approved by the voters, would be continuously appropriated to the department and available for expenditure starting in 2006-07. Thus, the augmentation request (which originated prior to passage of SB 1689) now is being sought as a contingency appropriation in the event that the voters do not approve the new bonds.

Existing Awards Will Fund Some Activities in 2006-07. The department indicates that, although all of the Proposition 42 Construction Management funds have been awarded, these awards are in the form of multi-year contracts that will continue to fund some services in 2006-07.

ITEM 1900 CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefits for more than 1.4 million active employees and retirees of state and local agencies in California. Benefits include retirement, disability, and survivor's retirement benefits, Social Security for State employees, and the development, negotiation, and administration of contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long term care program for members and eligible individuals.

CalPERS is governed by a Board of Administration. The California Constitution provides that the Board of Administration has authority over the administration of the retirement system. Therefore, the budget data presented here is for informational purposes only, with the exception of the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

The Governor's budget allocates $1.3 billion from the General Fund and Special Fund contributions totaling $745,000. The Governor's budget proposes total expenditures of $12.3 billion with funding coming primarily from the Public Employees' Retirement Fund and the Public Employees' Health Care Fund.

ISSUE 1: DIVERSITY OF INVESTMENT

June 15th, 2004 CalPERS submitted to the legislature a Commitment to Diversity Report. This report discussed CalPERS existing diversity programs and participation rate levels in CalPERS business activities by ethnic minority firms, women-owned firms, and ethnic minority and women employees, focusing on the management of CalPERS investment assets.

COMMENTS

At the request of the chair, this is an informational issue for CalPERS staff to update the committee on CalPERS status and progress since the 2004 report. This issue may be heard on Wednesday, May 10th.

ITEM 1920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

The State Teachers' Retirement System (STRS) provides retirement related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college level. The system provides three types of benefits: 1) service retirement benefits determined on the basis of member's age, years of service, and final compensation 2) survivor benefits and 3) disability benefits.

The STRS board has twelve members; four ex-officio members including the Superintendent of Public Instruction, State Treasurer, State Controller, and the Director of Finance; three public members; one retiree of STRS; one member that is either a school board member or community college trustee; and three representatives elected by STRS members.

The main objectives of STRS include: the maintenance of a financially sound retirement system, the maintenance of efficient administrative operations, continuous improvement of the delivery of benefits products and services to STRS members, and the development and improvement of the benefits and products to STRS members.

The State contribution is proposed at $1 billion in the Governor's budget. The total expenditure is budgeted at $7.8 billion coming primarily from the Teachers' Retirement Fund.

ISSUE 1: DIVERSITY OF INVESTMENT

COMMENTS

At the request of the chair, this is an informational issue for CalSTRS staff to update the committee on CalSTRS status and progress in relation to Diversity of Investment. This issue may be heard on Wednesday, May 10th.