

THE 2004-2005 STATE BUDGET

General Government

SECRETARY OF STATE

The Secretary of State (SOS), a constitutionally established office, serves as the chief election officer and is responsible for the administration and enforcement of election laws. The SOS also administers and enforces laws regarding security agreements, and the filing of corporate and limited partnership documents. In addition the SOS appoints notaries public, enforces notary laws, and is responsible for the procurement and preservation of various documents of historical significance.

MAJOR PROVISIONS

The major provisions of the proposed Secretary of State budget include:

- ◆ **California Corporate Disclosure Act.** \$1.6 million (special fund) appropriation to fund the requirements of Assembly Bill 44 (Shelley), Chapter 1015, Statutes of 2002 that increases corporate disclosure and creates a restitution fund for victims of corporate fraud.
- ◆ **Notary Public Applicant Testing.** \$2.1 million (special fund) augmentation to fund the testing and processing of notary public applications. This requested augmentation is the result of an increase in notary public applicants.
- ◆ **Help America Vote Act of 2002.** \$1.7 million (special fund) augmentation to continue the administration of the Help America Vote Act (HAVA). The mandates of HAVA include modernization of voting equipment, restoration of voter confidence, and facilitation of voter participation.

CALIFORNIA SCIENCE CENTER

The California Science Center is an educational, scientific and technological center administered by a nine-member board of directors appointed by the Governor. Located in Exposition Park, a 160-acre tract in South Central Los Angeles, the Science Center's mission is to promote science learning to school-age children, parents, teachers, community educators and the general public.

■ **MAJOR PROVISIONS**

The major provisions of the proposed Science Center budget include:

- ◆ **The Science Center School and Center for Science Learning.** \$2.42 million augmentation (\$1.44 million General Fund and \$981,000 reimbursements) to support the opening of the Science Center School and the Center for Science Center Learning.

CONSUMER AFFAIRS

The predominant duty of the Department of Consumer Affairs (DCA) is the education and protection of consumers to ensure a fair and honest marketplace. In addition, and within the scope of its purpose, the DCA oversees professional and occupational practices on behalf of the state's consumers through nine bureaus and programs. It shares this oversight and regulatory authority with 28 quasi-independent committees, boards, and commissions.

■ **MAJOR PROVISIONS**

The major provisions of the proposed Consumer Affairs' budget include:

- ◆ **Acupuncture Board.** \$86,000 (special fund) ongoing augmentation resulting from increased Attorney General workload.
- ◆ **Board of Registered Nurses.** \$62,000 (special fund) ongoing augmentation to fulfill workload associated with the Nurse Workforce Initiative.
- ◆ **Cemetery and Funeral Bureau.** \$167,000 (special fund) ongoing augmentation provide for costs associated with required audits of licensed cemetery trust funds.
- ◆ **Board of Professional Engineers and Land Surveyors.** \$293,000 (special fund) ongoing augmentation to address the costs associated with an increase in eye exam scoring fees.
- ◆ **Board of Barbering and Cosmetology.** \$197,000 (special fund) ongoing augmentation to fund its ongoing Attorney General workload.
- ◆ **Contractor's State Licensing Board.** \$83,000 (special fund) ongoing augmentation to fund licensing program backlogs resulting from workload increases.
- ◆ **Athletic Commission.** \$709,000 (special fund) increase in spending authority to fund mandates of the commission previously funded by the General Fund.

DEPARTMENT OF CORPORATIONS

The Department of Corporations protects the public and provides businesses through administration and enforcement of state laws regulating securities, franchise investment, lenders, and fiduciaries. The Department, which is fully self-supported through its revenues, is responsible for licensing, examination, investor and consumer education, and responding to public inquiries and complaints.

■ MAJOR PROVISIONS

The major provisions of the proposed Department of Corporations' budget include:

- ◆ **The California Information Privacy Act.** \$1.94 million (special fund) augmentation and 22 additional positions to respond to increased workload levels associated with the implementation of the California Financial Information Privacy Act, SB 1 (Spier), Chapter 24, Statutes of 2003.

DEPARTMENT OF FINANCIAL INSTITUTIONS

The Department of Financial Institutions was established effective July 1, 1997, to regulate depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad, and business and industrial development corporations. Programs are supported by assessment of the various industries, license and application fees, and charges for various other services.

■ MAJOR PROVISIONS

The major provisions of the proposed Department of Financial Institutions' budget include:

- ◆ **California Financial Information Privacy Act.** \$1.88 million (special funds) augmentation and 17 positions to respond to increased workload levels associated with the implementation of the California Financial Information Privacy Act (SB 1 (Spier), Chapter 24, Statutes of 2003.

DEPARTMENT OF GENERAL SERVICES

The Department of General Services is responsible for the management, review control and support of state agencies as assigned by the Governor and specified by statute. The department provides support services to operating departments to achieve greater efficiency and economy than they can individually provide themselves.

■ MAJOR PROVISIONS

The major provisions of the proposed Department of General Services' budget include:

- ◆ **Emergency Telephone Services.** The Department is requesting multi-year augmentations to its local assistance appropriation from the State Emergency Telephone Account Fund to provide enhanced wireless services to the 911 Emergency Telephone Network. The request is for \$23.4 million in 2004-05, \$4.35 million for 2005-06, and -\$2.9 million for 2006-07. The department was previously budgeted for this operation but due to technological and regulatory issues, implementation of wireless services have been delayed while the overall cost of the proposal has remained consistent.

MILITARY

As the Department responsible for the command, leadership and management of the California Army and Air National Guard, the Military Department provides military service supporting California and the nation through 118 armories, 10 air bases, and 3 army bases throughout the state. The California National Guard's missions are to provide: mission ready forces to the federal government as directed by the President; emergency public safety support to civil authorities as directed by the Governor; and support to the community as approved by proper authority.

■ MAJOR PROVISIONS

The major provisions of the proposed Military Department's budget include:

- ◆ **Homeland Security.** \$8.8 million (federal funds) 2003-04, \$2.1 million (federal funds) in 2004-05 to provide homeland security equipment, training, exercises, and infrastructure.
- ◆ **Bridge Protection.** \$5.5 million (General Fund) in 2003-04 associated with the California National Guard to provide 24 hour, seven day a week protection of the Golden Gate Bridge.

- ◆ **Youth Programs Reduction.** \$1.4 million (General Fund) reduction to the Starbase Program, Challenge Program and the California Cadet Corps.

OFFICE OF THE INSPECTOR GENERAL FOR VETERANS AFFAIRS

Chapter 894, Statutes of 1999 created the Office of the Inspector General for Veterans Affairs. The Inspector General for Veterans Affairs has responsibility for reviewing the operations and financial conditions of State Veterans Homes, the State Farm and Home Purchase Program, State Veterans Services, and all other veterans programs supported by the State, including County Veterans Service Offices and Veterans Memorial Districts. The Inspector General also is required to operate a toll-free complaint hotline for veterans, conduct audits and investigations of State veterans programs, and to make recommendations for improving the operations of veterans programs.

■ MAJOR PROVISIONS

The major provisions of the proposed Office of the Inspector General for Veterans' Affairs budget include:

- ◆ **Elimination of the Office.** The administration is proposing to eliminate the Office of the Inspector General for Veterans' Affairs resulting in a savings of \$324,000 (General Fund).

DEPARTMENT OF VETERANS AFFAIRS

The Department of Veterans Affairs (CDVA) provides services to California Veterans and their dependents, and to eligible members of the California National Guard. The principle activities of the CDVA include:

- ◆ Providing home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans, using proceeds from the sale of general obligation and revenue bonds;
- ◆ Assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service officers, and direct educational assistance to qualifying dependents and;
- ◆ Operating veterans' homes in Yountville, Barstow, and Chula Vista with several levels of medical rehabilitation services, as well as residential services. For the

Barstow and Chula Vista Homes, the budget assumes full occupancy in all levels of care by September 2002.

■ MAJOR PROVISIONS

The major provisions of the proposed for Veterans' Affairs budget include:

- ◆ **Drug and Alcohol Treatment Program.** \$450,000 (General Fund) reduction and elimination of 6.0 positions by closing the Alcohol and Drug Treatment Program.
- ◆ **Redirection of Funds.** \$669,000 and six existing staff from the Veteran's Home division to the headquarters to provide oversight and program direction at the three current homes and five future homes.
- ◆ **Fiscal Consolidation.** \$3.4 million and 41 positions are proposed to be transferred from Veteran's Homes appropriations to that of Headquarters. These positions currently provide centralized administrative functions with funding from the three existing homes. This proposal would centralize the funding for this function and being that there are no programmatic changes associated with the proposal, it does not incur additional cost.
- ◆ **Unreimbursed Cost of Care Fund Shift.** \$1.35 million reduction in General Fund expenditures resulting from a fund shift of existing unreimbursed medical cost of care from the Morale, Welfare, and Recreation Fund to the General Fund.
- ◆ **Food and Services and Security Functions.** \$569,000 (General Fund) and 120 positions by contracting food services and security functions at the Veterans Home of California, Yountville. This proposal would be consistent with the business practices of the Southern California Veterans Homes.

LABOR AND WORKFORCE DEVELOPMENT AGENCY

The Labor and Workforce Development Agency brings together the departments, boards and commissions that train, protect and provide benefits to employees and employers of California, such as unemployment insurance and workers' compensation. The roles and responsibilities of the agency are codified in Chapter 859, Statutes of 2002 (SB 1236).

The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board and the Workforce Investment Board. The Agency provides policy and

enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

■ MAJOR PROVISIONS

The major provisions of the proposed For the Labor and Workforce Development Agency budget include:

- ◆ **Workers' Compensation.** Taking effect on January 1, 2004, various cost containment reforms were enacted pursuant to Chapters 365 and 639 such as: fee schedule changes for pharmaceuticals; inpatient hospital care; outpatient hospital care and; ambulatory surgical centers. These reforms are estimated to result in savings to employers of up to \$5 billion within the first year of implementation. In the 2004-05 Governor's proposed budget, the Administration did not include any specific reform proposals and has signaled that any additional budgetary reforms related to workers' compensation will be included in the May Revision.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serve the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and assists disadvantaged and welfare-to-work job seekers by providing employment and training programs under the federal Welfare-to-Work Act of 1997 and Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

■ MAJOR PROVISIONS

The major provisions of the proposed Employment Development Department budget include:

- ◆ **Fraud Prevention.** \$9.69 million (Benefit Audit Fund) restoration to continue the funding of administrative costs of detecting, establishing, and collecting UI overpayments. In Fiscal Year 2003-04, funding for this was substituted with one-time federal Reed Act funds in order to provide reciprocal savings to the department. The proposed restoration will match spending levels to those of Fiscal Year 2001-02.

The Department is also requesting an additional \$2.95 million (Benefit Audit Fund) to fund Unemployment Insurance identity theft fraud control activities. This proposal

would replace expiring one-time Federal Reed Act funds that were appropriated in 2003-04.

- ◆ **Job Services Program.** \$16.1 million from the EDD Contingency fund to replace one-time Federal Reed Act funds, maintaining current staffing levels in the Job Services Program.
- ◆ **Unemployment Insurance Claims.** \$20.8 million from the EDD Contingency fund to replace one-time Federal Reed Act funds maintaining staffing levels necessary to process Unemployment Insurance Claims.
- ◆ **Paid Family Leave.** \$395 million (special fund) augmentation to fund the Paid Family Leave Program authorized by Chapter 901, Statutes of 2002 and Chapter 797, Statutes of 2003.
- ◆ **Employment Training Panel.** \$40.0 million reimbursements increase for the Employment Training Panel. Total funding for 2004-05 will be \$53.6 million.

DEPARTMENT OF INDUSTRIAL RELATIONS

The objective of the Department of Industrial Relations is to protect the workforce in California, improve working conditions, and advance opportunities for profitable employment. The Department is continually working toward this objective by enforcing workers' compensation insurance laws and adjudicating workers' compensation insurance claims, working to prevent industrial injuries and deaths, promulgating and enforcing laws relating to wages, hours, and conditions of employment, promoting apprenticeship and other on-the-job training, assisting in negotiations with parties in dispute when a work stoppage is threatened, and by analyzing and disseminating statistics which measure the condition of labor in the State.

■ MAJOR PROVISIONS

The major provisions of the proposed Department of Industrial Relations budget include:

- ◆ **Cal/OSHA.** \$713,000 (Federal Fund) increase in spending authority for Cal/OSHA resulting from a one-time increase in Federal funds awarded to the Department by the U.S. Department of Labor, Occupational Safety and Health Administration.
- ◆ **Staffing Reduction.** \$808,000 (General Fund) savings resulting from the elimination of 10.5 vacant positions.

ENERGY

- ◆ **Administration Energy Plan.** The budget indicates that the administration will propose creation of a uniform state strategy to stimulate private investment and realign the state's energy agencies to conform to that strategy. This will include creation of a revised wholesale electric power market; assurance of diverse and adequate fuel supplies for power generation; cost-effective conservation and demand-response components, and enactment of electricity generation reserve requirements.
- ◆ **Elimination of Power Authority.** The budget proposes legislation to eliminate the California Consumer Power and Energy Conservation Financing Authority as of September 30, 2004. The budget indicates that the authority is not financially self-sufficient and that other state agencies and private entities perform similar activities. The authority currently has 3.8This proposal raises a number of concerns:
 - ◆ The authority has a number of ongoing programs and functions (for example, administration of its Demand Reserve Partnership Program, which provided 250 MW of dispatchable power to the state's electricity grid in the summer of 2003). The budget does not specify another state agency or private entities to assume these functions.
 - ◆ Elimination of the authority does not result in any General Fund savings. Moreover, approximately \$4.5 million owed by the authority to the Energy Resources Programs Account would not be repaid. Authority staff indicates that the agency has reached financial self-sufficiency, and that revenue from future operations may enable the authority to make additional loan repayments.
- ◆ **Electricity Oversight Board.** The budget includes \$3.6 million (special funds) and 23 positions to continue the Electricity Oversight Board, which oversees certain functions of the California Independent System Operator and which represents the state in various proceedings before the Federal Energy Regulatory Commission. This is a slight reduction due to the elimination of one-time funding.
- ◆ **Energy Commission.** The budget proposes no major changes for the commission in 2004-05. Total spending (all from special funds) is \$362 million, an increase of about \$49 million (15.5 percent) from the current year. Spending on energy conservation programs declines by about \$31 million, partially due to the depletion of proceeds of bonds sold by the Power Authority. However, spending in the Development Program increases by about \$80 million primarily reflecting increased spending budgeted from the Renewable Resource Trust Fund. The budget also includes current-year savings of \$27 million from the reversion of unspent General Fund resources at the Energy Commission—this was included in the Governor's in the Mid-Year Proposals.

- ◆ **Public Utilities Commission (PUC).** The budget proposes \$1.2 billion (all from special funds) and 850 positions for support of the PUC in 2004-05. This represents about the same staffing level as in the current year and a spending reduction of about \$74 million (6 percent), primarily in the Universal Service Telephone Programs.
- ◆ **Teleconnect Fund Will Be Depleted.** The Teleconnect Fund finances discounts on telecommunications services to schools, libraries, public hospitals and clinics, and some nonprofit organizations. The budget estimates that spending from the fund will decline from \$26.4 million in the current year to \$5.3 million in 2004-05, leaving essentially a zero fund balance. The PUC indicates that this amount is \$33 million short of program needs. In the current year, the General Fund borrowed \$150 million from the Teleconnect Fund. The PUC has requested the Department of Finance to approve a partial loan repayment to cover the shortfall or, alternatively, approval to reinstate the surcharge on phone bills that funds the program (the surcharge was suspended in 2003 due to a large accumulated balance in the fund). According to the PUC, the department has rejected both requests.
- ◆ **Salary Savings Reduced.** Salary savings represent the savings that normally accrue to departments when positions are temporarily vacant. The budget reduces the amount of salary savings in the PUC to 2 percent. This is an extraordinarily low estimate of turnover savings. For comparison, the two major tax agencies, the Franchise Tax Board and the State Board of Equalization, have budgeted salary savings rates of about 8 percent.

TAX ADMINISTRATION

The state has two major tax administration agencies. The State Board of Equalization (BOE) is comprised of four members elected specifically to the board from districts and the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes). The Franchise Tax Board (FTB) consists of the Controller, the Chair of the BOE, and the Director of Finance. The FTB administers the Personal Income Tax and the Bank and Corporation Tax. FTB also assists other departments in the collection of delinquent debts, including delinquent child support payments. The BOE also hears taxpayer appeals of FTB decisions.

■ MAJOR PROVISIONS

The major provisions of the proposed Tax Administration include:

- ◆ **State Board of Equalization.** The budget proposes \$327 million (\$194.4 million from the General Fund) and 3,462 personnel-years of staff for the BOE in 2004-05—a slight reduction from current-year estimates. The board is adding \$5.6 million in the current year and \$8.1 million in 2004-05 (special funds) to implement AB 71 (J. Horton), which requires licensing of all businesses in the state that are in the distribution chain for cigarettes and tobacco products. Budgeted spending for administration of the gasoline and diesel fuel taxes declines by about \$2.5 million (special funds) in 2004-05.
- ◆ **Franchise Tax Board.** The budget proposes total spending of \$560.5 million (\$442 million from the General Fund) and 5,075 personnel-years of staff for support of the FTB in 2004-05. Total spending increases by 5.2 percent and General Fund spending increases by 2.1 percent compared with the estimates for the current year. Staffing declines by 2.7 percent. Furthermore, the current-year figures include a reduction of \$27 million and 480 positions that was allocated to the FTB by the Department of Finance to meet statewide savings targets for personal services costs pursuant to Control Section 4.10 of the 2003-04 Budget Act.
- ◆ **Abusive Tax Shelters.** These tax scams depend on complex sham transactions and layers of shell entities, often overseas, to claim nonexistent tax deductions. These schemes grew to massive proportions in the late 1990s when they were marketed by some of the major accounting firms and used by large corporations and very wealthy individuals. The Internal Revenue Service estimates that the federal tax loss from these abusive shelters totals tens of billions of dollars. The loss to California was hundreds of millions of dollars. Legislation enacted in 2003 (AB 1601, Frommer, and SB 614, Cedillo) gives FTB additional tools to recover unpaid taxes and discourage future attempts to use abusive tax shelters. As part of this effort, the FTB has redirected 30 staff to abusive tax shelter audits and is implementing a voluntary compliance initiative (which provides a penalty-free window for taxpayers to disclose abusive shelters and pay taxes due). The budget's revenue estimates include \$90 million in 2003-04 and in 2004-05 from these efforts. The budget also indicates that FTB will review this issue in the spring and determine whether it requires additional resources or expertise to maximize recoveries.
- ◆ **Child Support Enforcement.** The budget proposes a funding increase of \$29 million for this program (\$11 million General Fund and \$18 million federal reimbursements), which FTB operates to collect delinquent child support payments on behalf of the Department of Child Support Services. The FTB signed a vendor contract in July 2003 to develop a comprehensive collection and tracking system (the California Child Support Automation System—CCSAS). The budget proposes a

total of \$118 million (\$41.5 million General Fund) for this project in 2004-05. FTB anticipates completion of the first phase of the project in 2005-06. Successful completion of this system will enable the state to comply with federal requirements and end the imposition of federal penalties on the state. The budget estimates that these penalties will amount to \$195 million in 2003-04 and \$220 million in 2004-05.

- ◆ **Political Reform Audit Program.** The budget proposes legislation to shift funding for audits of campaign financial statements from the General Fund to fees for a savings of \$1.4 million. The FTB conducts random field audits on behalf of the Fair Political Practices Commission. This funding shift also was proposed, but not adopted, in the 2003-04 Budget.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

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 budget proposes total spending of \$613.5 million for HCD in 2004-05, a decline of \$154.4 million from estimated current-year spending. Most of the spending decline reflects the spending pattern of bond funds from the Proposition 46 Housing Bond approved in November 2002. Proposed General Fund spending is \$14.2 million—a decline of \$1.4 million (9.2 percent). The bulk of the overall spending decline reflects

■ **MAJOR PROVISIONS**

The major provisions of the proposed Department of Housing and Community Development budget include:

- ◆ **Reduction in Homeless Shelter Operating Grants.** The budget proposes a \$1.3 million General Fund reduction to Emergency Housing Assistance Grants to homeless shelters (from \$5.3 million to \$4 million). This reduction also was proposed, but not adopted, in the 2003-04 Budget.
- ◆ **Mid-Year 2003-04 Reductions.** The budget includes the following mid-year General Fund reductions that were proposed by the Governor in November:
 - ◆ Reversion of \$5 million previously committed to housing projects that now are "dormant".

- ◆ Closure of the Blythe migrant housing center for a savings of \$140,000 in 2003-04 and \$280,000 in 2004-05.
- ◆ Reversion of \$3.9 million of unused down payment assistance funds from the California Housing Finance Agency.

EMPLOYEE COMPENSATION

The Governor's Budget displays this item to reflect a funding mechanism for compensation adjustments for state employees. The budget for this item includes amount agreed to in approved memoranda of understanding for represented employees and adjustments to salary and benefits authorized for excluded employees.

■ MAJOR PROVISIONS

The major provisions of the proposed Employee Compensation budget include:

- ◆ **Salary and Benefit Adjustments.** The Governor's Budget includes an augmentation of \$874.5 million (\$464.3 million General Fund) to fund salary and benefit increases for represented employees in 16 collective bargaining units that have ratified memoranda of understanding, and for excluded employees. The salary adjustments funded for represented employee in this item generally reflect increases that have been deferred from previously negotiated agreements.
- ◆ **Increased Employee Contributions.** The Governor's Budget proposes an increase in employee contributions for retirement by one percent. In most cases it would increase the contribution from five to six percent. The Administration's proposal for employees under safety, peace officer or highway patrol categories is not clear at this time. This adjustment to employee retirement rates is estimated to shift \$13.9 million (General Fund, as much as \$27.8 million in all funds) in employee costs in 2004-05.
- ◆ **Reduced Pension Benefits.** The Governor's Budget proposes that new employees to state service including those employees of the Legislature and judicial branch be subject to retirement benefits that would be lower than previously provided to such employees. This "tier 2" retirement plan would achieve a savings of \$6.4 million (General Fund) in 2004-05.
- ◆ **Pension Obligation Bonds.** The Governor's Budget proposes the issuance of pension obligation bonds that will provide an additional \$949 million to the State to offset the employer retirement contribution in 2004-05. The Administration proposes to meet its debt service obligations through the "savings" from the combination of the transfer of a portion of the retirement costs from the State to its employees and

by the reduction in retirement benefits through the creation of the "tier 2" retirement plan. Once the debt service requirements of the pension obligation bond have been met it is not clear if the Administration will propose a return to the original employee contribution rate.

■ MID-YEAR REDUCTION PROPOSALS

- ◆ **Mid-Year Reductions.** The Budget Act of 2003 includes Control Section 4.10 which directs the Administration to achieve a savings of \$1.1 billion in employee compensation costs. This is to be accompanied by the abolishment of at least 16,000 permanent positions. In November, the Department of Finance notified the Legislature of its compliance with this control section. The Administration now proposes an additional General Fund savings of \$150 million in 2003-04. The details of those reductions have not yet been made available so it is not clear what the fiscal impact of these current year reductions would be in 2004-05