

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR****TUESDAY, APRIL 14, 2015****1:30 P.M. - STATE CAPITOL ROOM 447**

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VOTE-ONLY CALENDAR

0840 SECRETARY OF STATE

VOTE-ONLY ISSUE 1 – BALLOT MEASURE CONTRIBUTOR DATA

The Subcommittee will consider one budget proposal from the Secretary of State that may be non-controversial.

BACKGROUND

The Governor's budget includes a request for 1.0 full-time position and one 0.25 part-time position and an augmentation of \$135,000 in 2015-16 and \$125,000 ongoing in General Fund expenditure authority to be used to compile new, mandated data for the statewide ballot pamphlet (Voter Information Guide) pursuant to SB 844 (Pavley, Chapter 920, Statutes of 2014).

SB 844 requires the Department to calculate and compile data on total contributions and top contributors to ballot measures and ballot measure committees, and to provide a means to access campaign finance reports filed by statewide candidates. This data must be compiled and reported to the public within five days of receiving quarterly, semiannual, and pre-election reports. This data is not currently compiled in an automated fashion, so SB 844 creates additional workload that requires manual compilation and calculations because the data is not otherwise available from CAL-ACCESS.

STAFF COMMENTS

This request is consistent with resources necessary for the implementation of SB 844. This proposal appears non-controversial.

Staff Recommendation: Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 2: STATEWIDE TRAVEL PROGRAM

The Governor's budget includes a request to provide the Department of General Services (DGS) with \$273,000 (Service Revolving Fund) and 2.0 permanent positions to support the statewide travel program's (STP) implementation of a managed lodging program.

BACKGROUND

On February 6, 2014, the Governor issued Managed Memorandum (MM) 14-03, which requires state agencies to make all travel arrangements (air, rail, car, and hotel) through the statewide travel program. The proposal would allow the state to capture hotel spend data that may allow the state to take advantage of its buying power by negotiating commissionable state rates at more hotels. According to DGS, the state has the potential to save more than \$2 million in annual, statewide travel spending with full implementation of MM 14-03.

STAFF COMMENTS

This mandate will significantly increase DGS' volume of hotel transactions. Based on the state's estimated hotel spending of \$75,000,000, with an average daily rate of \$100 and an average length of stay of three nights, DGS expects to see 245,000 additional transactions. This would be an increase from 2 percent to 100 percent over the next 12-48 months.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 3: STATEWIDE DISABILITY ACCESS AND EDUCATION PROGRAM

The Governor's budget includes a request to provide the DGS Division of the State Architect with a three-year extension of one limited-term position and \$132,000 (Disability Access and Education Revolving Fund) to meet workload requirements associated with SB 1186 (Steinberg, Chapter 383, Statutes of 2012).

BACKGROUND

The 2013-14 Governor's budget included an augmentation of five positions and \$532,000, to provide support for workload associated with SB 1186. The Legislature approved two of the five positions and the associated funding on a two-year limited-term basis, and the remaining three positions and funding permanently. The two limited-term positions are scheduled to expire on June 30, 2015.

The requested positions are working with staff to increase the state's number of private and public certified access specialists (CASp), establish and maintain oversight of the CASp program, increase outreach efforts and develop educational resources for persons with disabilities and businesses.

SB 1186 provided changes to reduce statutory damages and offered litigation protections for specified defendants who correct construction-related accessibility violations of the Unruh Civil Rights Act in a timely fashion.

STAFF COMMENTS

The Division of the State Architect has identified the need to extend one limited-term AGPA position for a period of three years to complete the requirements of SB 1186. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 4: SCHOOL EMPLOYEE DISMISSAL HEARINGS

The DGS, Office of Administrative Hearings (OAH) requests an augmentation of \$2,246,000 (Service Revolving Fund) expenditure authority and 13.0 positions to address workload associated with AB 215 (Buchanan, Chapter 55, Statutes of 2014).

BACKGROUND

The OAH conducts hearings and mediations regarding disputes for many different government agencies. OAH's General Jurisdiction Division provides adjudicatory and alternative dispute resolution services to state, local, and county agencies. OAH's Special Education Division provides adjudicatory and mediation services to school districts and parents. OAH employs experienced administrative law judges who preside as neutral judicial officers at settlement conferences, mediations, and hearings.

AB 215 updates and streamlines the teacher discipline and the dismissal process, saving school districts time and money while at the same time ensuring due process. AB 215 focuses on cases in which a school district intends to dismiss a teacher who has permanent status (tenure). In certain circumstances, the school district can immediately suspend the teacher, without pay, while the dismissal proceeding is pending. The OAH estimates that pre-hearing related workload for ALJ's will increase by approximately four times current workload.

STAFF COMMENTS

The enactment of AB 215 requires additional provisions that will substantially increase OAH's pre-hearing workload per case. The requested resources are reasonable to address the workload.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 5: STATE PROPERTY INVENTORY REPORTING TRAILER BILL LANGUAGE

This proposal includes trailer bill language to require District Agricultural Associations (Associations) to continue reporting state owned real property information to DGS on an annual basis.

BACKGROUND

The reporting requirement was unintentionally removed by AB 2490 (Eggman, Chapter 342, Statutes of 2014), which was intended to relieve Associations from unnecessary reporting and other statutory requirements. However, DGS compiles state owned property information in the Statewide Property Inventory (Inventory) database to be accessed in times of emergencies and other purposes. Associations continuing to report on the status of state owned land-use buildings help ensure that the Inventory database contains accurate and up to date information. This information is used to determine if the buildings or land is available during a fire or other natural disasters, evacuations, or emergency vehicle coordination efforts.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt trailer bill language.

0845 DEPARTMENT OF INSURANCE

VOTE-ONLY ISSUE 6: CDI MENU MODERNIZATION PROJECT – YEAR 2

The Governor's budget includes a request for one-time increase of expenditure authority in 2015-16 of \$2,777,000 (\$1,527,000 General Fund, and \$1,250,000 Insurance Fund) to support 4.0 limited-term positions and 3.5 temporary help position authority to complete the second year implementation of an approved five-year project.

BACKGROUND

The CDI menu was originally developed in 1992, and supports nearly all of the mission critical applications for CDI. The technology that supports the CDI menu is antiquated, and CDI staff has been required to build "work around" solutions in order to maintain functionality of the software platform. Additionally, the vendor that supports the platform will no longer provide that support after June 2017.

Year one of the menu modernization project was approved by the Legislature as part of the 2014 Budget Act. The Legislature authorized \$1.329 million (Insurance Fund) to begin the project. The second year of the project will include re-engineering the fraud investigation database (FIDB), and the completion of upgrading systems for Community Programs and Policy Initiatives, which includes the Office of the Ombudsman and the Statistical Analysis Division.

Funding for the second year of the project is split 55 percent general fund and 45 percent insurance fund. CDI will utilize proceeds from a \$46 million dollar settlement that were directed to the General Fund, and are required to be utilized to enhance fraud investigation and enhancement efforts to fund a portion of the project. The General Fund portion of the project will support efforts to upgrade CDI's FIDB, which serves as the Fraud Division's case management, analysis, and timekeeping system. The Insurance Fund will support the upgrade of the Community Programs and Policy Initiatives Branch.

STAFF COMMENTS

The resources included in this request are reasonable and will help CDI continue to Year 2 of its project.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 7: CYCLE IV, FEDERAL FUNDS

The Governor's budget requests a Federal Fund appropriation of \$589,500 (\$452,000 for 2015-16 and \$137,500 for 2016-17) for a two-year period to allow the Department of Insurance to draw down federal grant monies awarded on September 19, 2014.

BACKGROUND

The Patient Protection and Affordable Care Act (ACA) was enacted on March 23, 2010, and is one of the most significant legislative changes of the last 50 years. The ACA includes a variety of provisions designed to promote accountability, quality, and accessibility in the health care system. This is the fourth cycle of Federal Funds made available to states as part of the Health Insurance Rate Review grant program. CDI has been awarded Federal Funds in all four cycles.

According to CDI, the fourth iteration of federal grant funding will support two actuarial staff that were added as part of the third iteration of grant funding, and support project management and consulting for activities associated with the jointly-operated data center located at the University of California, San Francisco (UCSF). Additionally, this proposal will support the funding of a project manager at the data center who will be responsible for the project timeline and budget of the project.

STAFF COMMENTS

Staff does not have any concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

0840 STATE CONTROLLER'S OFFICE

ISSUE 1: 21ST CENTURY LEGAL EFFORTS

The Governor's budget requests 8.0 one-year limited-term positions and \$12,544,000 (\$4,397,000 General Fund, \$1,685,000 Reimbursements, and \$6,462,000 Special Funds) in 2015-16 to support ongoing legal activities as a result of the 21st Century Project.

This proposal also includes a year extension of trailer bill language for the project and provisional budget bill language.

BACKGROUND

In 2004, the SCO proposed the 21st Century Project, a new IT project to replace the existing statewide human resources management and payroll systems used to pay state employees. The new system was designed to replace the "legacy systems" which were developed more than 30 years ago. Known as MyCalPAYS, the project was intended to manage payroll, benefits, and timekeeping in a more central and cost efficient manner than the legacy systems.

The SCO is responsible for issuing pay to the state's 294,000 employees statewide, and therefore responsible for the implementation and management of the new system. The SCO developed a two-phase procurement process that would allow the agency to first contract to purchase commercial software and second to contract with a vendor to modify the software to meet the state's systems integration needs. The project had delays early on that extended the schedule by two years and increased project costs from \$130 million to \$180 million. In 2009, SCO terminated the original integration services contract.

In 2010, a new integration services contract was procured and project schedule and costs were revised. The schedule was extended to October 2012, and the total costs rose from \$180 million to \$283 million. Implementation of the project was supposed to occur in five phases, or pilots. These early pilots were designed to integrate a small number of employees into the system in order to test the system prior to the full launch of the system. A number of challenges occurred with the early pilots and as a result SCO sent a cure notice to the primary vendor in order to make changes. Once again, the project costs increased to \$373 million and the schedule of completion moved to September 2013.

In February 2013, the SCO terminated its contract with the vendor citing inaction by the vendor in response to the cure notice and a lack of confidence that the vendor could complete the project. The Department of Technology suspended further work on the project until a new plan could be created. For now, the SCO has reverted to using the legacy system to administer payroll processing.

In June 2013, the budget included additional funding for legal fees and for the SCO to work on reconciling the issues that were created from the launch of the first phase. In November 2013, the SCO filed a lawsuit against SAP Public Services, Inc. (SAP), the vendor for numerous issues including failure to respond to the cure notice. The lawsuit is still pending. The 2013 Budget Act provided the SCO with \$1 million for legal support.

2015-16 Budget Proposal. Similar to last year, the budget proposal includes multiple segments, which includes funding for legal expenses, additional limited-term positions, the extension of trailer bill language, and includes budget bill language all related to the ongoing legal efforts for this project. The total amount requested to support these efforts is \$12,544,000 of which \$4,397,000 is General Fund.

21st Century Project Litigation Costs

	Fiscal Year	Outside Legal Counsel	SCO Costs ^{1/}	Total
Actuals	2012-13	\$1,470,000	\$690,000	\$2,160,000
Actuals	2013-14	\$4,930,000	\$1,217,000	\$6,147,000
Projection	2014-15	\$10,750,000	\$4,029,000	\$14,779,000
Projection	2015-16	\$7,600,000	\$5,244,000	\$12,844,000
Projection	2016-17	\$762,000	TBD	\$762,000
Total		\$25,512,000	\$11,180,000	\$36,692,000

^{1/} Includes SCO staffing, facilities, data center, etc. as per approved BCPs.

Proposed Trailer Bill Language. Existing law authorized the Controller to assess special funds within the state treasury for costs attributable to the replacement effort of the payroll disbursement system. The costs assessed to the 21st Century Project will be evenly split between the General Fund and special funds within the state treasury.

The provisions in this section were originally set to expire on June 30, 2011. They were extended by three years through AB 119 (Chapter 31, Statutes of 2011) to June 30, 2014. The 2014 Budget Act extended these provisions by one year. The proposed trailer bill language would extend these provisions by another year to June 30, 2016.

Provisional Budget Bill Language. Last year, the SCO requested provisional budget bill language that authorizes additional expenditures for legal costs. The provisional items would allow for further augmentation from all fund sources to fund litigation and related support efforts associated with the 21st Century Project throughout the year. This year, the same provisional budget bill language is proposed for the budget.

STAFF COMMENTS

The request for legal costs are consistent with past actions taken by the Subcommittee.

It is the staff understanding that the SCO did not include a May Revision proposal on this item due to deadline constraints. The Subcommittee may wish to ask the SCO if they are instead going to use the Budget Bill Language to request additional resources for this item?

Staff Recommendation: Approve as budgeted.

0890 SECRETARY OF STATE

ISSUE 2: CALIFORNIA BUSINESS CONNECT

The long-term plan to address the problems with business filings is to modernize the Secretary of State's business process. This issue explores the modernization effort, called the California Business Connect project.

BACKGROUND

The California Business Connect project is an effort to replace the antiquated and labor-intensive business filing process with a modern automated process that will both improve the customer experience and reduce operational costs for the State. The project includes a comprehensive technology upgrade that will increase online services for business filings and copy orders, allowing the Secretary of State to process documents within as quickly as a few hours and avoid seasonal processing fluctuations. This will allow business to quickly open their doors, create bank accounts, acquire loans, hire employees, and generate income regardless of the time of year, creating a friendlier business environment in California.

This project is still in the design phase, but is behind schedule. SOS received a schedule from the vendor that re-assessed tasks, durations and resource assignments. Due to the increased timeframe associated with this, SOS is working with the Department of Technology and the vendor to determine next steps and potential options for moving forward. According to the Department, although the project is behind schedule, it is still currently within the initial scope and cost parameters.

BUDGET CHANGE PROPOSAL

The Governor's budget is requesting spending authority of \$7.759 million for the continuation of the California Business Connect project. Of these funds, \$6.259 million would come from the Business Fees Fund authority and \$1.5 million in Business Programs Modernization Fund authority. The total project costs for 2015-16 total \$10.377 million; of which \$2.896 million will be funded by existing resources currently within the project's budget.

STAFF COMMENTS

The Secretary of State will give an update on business filings and present the BCP. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 3: HELP AMERICA VOTE ACT (HAVA)/VOTECAL

The Secretary of State is two years into implementing a three-year technology project that will allow California to meet federal elections requirements. The Subcommittee will discuss the department's progress towards that goal and the budget change proposals related to the project.

BACKGROUND

Passed in 2002, in response to controversy surrounding the presidential election of 2000, the federal Help America Vote Act (HAVA) requires that states comply with a series of federal election requirements that are intended to ensure a fair and accurate federal election process. Such requirements include: replacing punch card and lever operated voter equipment; allowing voters to verify their ballots; providing voters with provisional ballots; providing access for voters with disabilities; and creating a statewide voter registration database.

The SOS entered into an agreement with the U.S. Department of Justice to develop and implement a statewide uniform, centralized, interactive, and computerized voter registration database to comply with federal mandates of the Help America Vote Act (HAVA). A contract to develop this new system, called VoteCal, was awarded in 2013 and the Secretary of State anticipates completion of the project by the middle of 2016. This new system will work with existing county Election Management Systems. This will allow county users to use their existing data entry screen processes while ensuring that voter registration information is maintained by the VoteCal system in the single, statewide voter registration database.

The project is set to roll out in six different waves. The first (pilot) wave of the project will go live in July 2015 for the following counties: El Dorado, Mendocino, Orange, Sacramento, and Solano.

The Governor's Budget includes three HAVA related items:

- **Help America Vote Act Spending Plan.** SOS is requesting \$2.976 million in expenditure authority for FY 2015-16 from the Federal Trust Fund to continue implementation of the statewide mandates of the Help America Vote Act of 2002.
- **Help America Vote Act, VoteCal.** SOS is requesting \$34.338 million in spending authority in FY 2015-16 from the Federal Trust Fund to continue its development and implementation of VoteCal.
- **Voting System Testing and Approval.** SOS is requesting 1 position and \$305,000 in expenditure authority in FY 2015-16 from the Federal Trust Fund for the continuation of testing and approving voting systems pursuant to the mandates of the Help America Vote Act of 2002.

STAFF COMMENTS

The Secretary of State will provide a brief update on these important projects. This proposal is consistent with federal requirements to improve the accessibility and quality of California's electoral system.

Staff Recommendation: Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

ISSUE 4: MERCURY CLEANERS SITE REMEDIATION

This proposal requests a one-time \$9.3 million (General Fund) augmentation to continue remediation efforts associated with the Mercury Cleaners building site, a state-owned property located at 1419 16th Street, Sacramento, CA.

BACKGROUND

A majority of the preliminary site investigation work for the Mercury Cleaners building site was completed in January and February 2014, and a Data Gap Completion Report was completed in May 2014, including findings, conclusions, and recommendations for additional site investigations, monitoring, and remediation work. The results indicate a significant level of contamination at the Mercury Cleaners building site.

The preliminary results of the report indicate a significant level of contamination in the Mercury Cleaners building site and confirms that releases of both tetrachlorethene or perchloroethene (PCE) and petroleum hydrocarbon based solvents (such as Stoddard Solvent) coincide with the locations of historic dry cleaning activities within the site building, thus strongly suggesting that the impacts to soil, soil vapor, groundwater, and indoor air quality at the Mercury Cleaners site are predominately the result of onsite releases. DGS received \$3.7 million in one-time General Funding for 2014-15 for remediation of the Mercury Cleaners building site, including site investigation and assessment work.

LAO COMMENTS

According to the LAO, there is a substantial uncertainty regarding the extent to which contamination has spread from Mercury Cleaners site to adjacent properties. The department reports that it will take between one and two years before it will have completed sufficient investigation work to know the extent to which it will need to proceed with the purchase and demolition of other structures and relocation of tenants. Therefore, DGS is unsure whether all of the resources requested for this proposal will be needed in the budget year. However, DGS indicates that it is requesting this funding in 2015-16 because it would want to be able to begin these activities in 2015-16 if the investigations are completed in that timeframe and the investigations find that contamination has spread. The department indicates that it does not want to wait to complete these activities should health and human safety risks be identified that require immediate attention. These funds would be deposited into the Architectural Revolving Fund (ARF). Once placed in the ARF, the funding would be available to DGS for expenditure for up to three years.

LAO notes that the proposed remediation activities are reasonable. However, it is unclear at this time how much of the proposed funding for the purchase of other structures, relocation of tenants, and demolition and abatement will be needed in 2015-

16. LAO has recommended budget bill language that specifies that \$7.6 million only be used for these purposes, and any amount unspent in 2015-16 be reverted to the General Fund.

The language would allow DGS to complete work in the budget year but require it to return with a revised budget request for any additional work as part of next year's budget process. At that time, DGS should be able to provide the Legislature with additional information regarding the scope and costs of additional remediation work necessary at these sites.

Proposed budget bill language: *"Of the amount appropriated in this item, \$7.6 million shall only be available for (1) the purchase of other structures near the Mercury Cleaners site, (2) demolition and abatement of these structures, (3) relocation of tenants, and (4) administrative costs associated with these activities. Any unspent funds at the end of the 2015-16 fiscal year shall revert to the General Fund."*

STAFF COMMENTS

Staff agrees with the LAO; at this time it is unclear how much of the requested funding will be needed during 2015-16. The proposed budget bill language provides a general framework that would allow DGS to continue site remediation related activities without creating an additional burden on the state's General Fund.

Staff also would recommend that staff work with DOF, DGS, and LAO work to refine the placeholder budget bill language.

Staff Recommendation: Approve as budgeted and adopt placeholder budget bill language.

ISSUE 5: DHARMA REALM UKIAH – HAZARDOUS MATERIALS INVESTIGATION

The DGS, Real Estate Services Division, Project Management and Development Branch, request one-time authority in the amount of \$1.115 million (General Fund) in 2015-16 for investigation and characterization of the Dharma Realm site, a property previously owned by the state, located at 2001 Talmage Road, Ukiah, California.

BACKGROUND

From 1823 to 1972 the State of California owned and operated the Mendocino State Hospital in Ukiah. The state hospital property was sold in 1974 to Vinfera who in turn sold 273 acres of the property in 1976 to the Sino-American Buddhist Association, now known as the Dharma Realm Buddhist Association. A settlement and standstill agreement was entered into by the State following a lawsuit filed by DRBA in 1993 as a result of their environmental impact report, which identified a number of environmental conditions at the property. The agreement indicates that investigation, characterization, and remediation are to “meet the requirements of the North Coast Regional Water Quality Control Board, State Integrated Waste Management Board, and Mendocino County Department of Public Health.

The state is required to meet the expectations of the court order investigation and characterization of the site, otherwise the state could be found in violation of the Porter-Cologne Water Quality Control Act and could be cited and fined for non-compliance. DGS is required to comply with the regulatory request.

STAFF COMMENTS

The resources in this proposal are necessary for the state to comply with its legal obligations. Staff does not have any concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 6: HIGH SPEED RAIL PROJECT

The DGS, Real Estate Services Division, Real Property Services Section (RPSS), is requesting to permanently establish 5.0 positions and \$841,000 (Service Revolving Fund) expenditure authority in order to meet the stabilized and increased workload associated with the California High Speed Rail Authority (HSRA) project.

BACKGROUND

The 2013-14 Governor's budget included an augmentation of \$684,000 (Service Revolving Fund) and 5.0 positions for support of the RPSS' review and regulatory responsibilities. At the time, the LAO opined that the requested positions should be approved on a limited term basis as the HSRA project right-of-way acquisition activities had not begun in earnest. The Legislature authorized the positions and expenditures on a limited-term basis. Those limited-term positions are set to expire on June 2015.

As of August 1, 2014, the HSRA reported that 545 appraisals have been completed, 379 first written offers for acquisition have been made, and 70 parcels have been made available to the design-build contractors. Workload will continue to increase exponentially as the project continues and extends to other regions.

STAFF COMMENTS

The workload associated with these positions has significantly increased since the proposal first was heard two years ago. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 7: CALIFORNIA BUILDING AND STANDARDS COMMISSION

The Governor's budget requests a one-time augmentation of \$305,000 (Building Standards Administration Special Revolving (BSASR) Fund in 2015-16 to support the California Environmental Quality Act study to develop an Environmental Impact Report, Negative Declaration, or Mitigated Negative Declaration in order to comply with AB 2282 (Gatto, Chapter 606, Statutes of 2014).

BACKGROUND

Since the early 1980's, all building standards either adopted or proposed by state agencies are to be reviewed and approved by the commission before they are to go into effect. Additionally, all building standards were consolidated into a single code of regulations, Title 24, more commonly referred to as the California Building Standards Code. According to statute, the commission is required to update the California Building Standards Code in its entirety every three years. AB 2282 requires that the Commission develop, and propose for adoption, mandatory building standards for recycled water systems during the 2016 intervening code adoption cycle for inclusion in the 2016 California Building Standards Code.

STAFF COMMENTS

On April 7, 2015, the Subcommittee held the budget change proposal open from the Department of Housing and Community Development to direct them to work with DGS to decide which department should take the lead and what resources are needed to address the issue.

Staff Recommendation: Hold Open.

0845 DEPARTMENT OF INSURANCE

The Department of Insurance regulates the largest insurance market in the United States with more than \$123 billion in direct premiums written in the state. The CDI licenses and regulates insurance companies, agents and brokers in California. Currently, CDI oversees and licenses approximately 1,300 insurance companies and 360,000 individuals and business entities as insurance agents, brokers, adjusters and bail agents.

The Governor's Budget proposes a total spending of \$261.1 million for the Department of Insurance in 2015-16, an increase of 1.5 percent compared with estimated spending for the current year. Proposed staffing totals 1,386.8, a decrease of 0.6 percent compared to the current year.

INFORMATIONAL ITEM 1: EARTHQUAKE GRANTS AND LOAN PROGRAM

The Department of Insurance will provide a brief background on the Earthquake Grants and Loan program.

BACKGROUND

Senate Bill 395, Chapter 899, Statutes of 1995, established the Earthquake Grants and Loans Program to provide low-to-moderate income residential property owners funds to minimize future earthquake damage to their homes. The bill appropriated \$4.4 million for loans, grants, and program administration through July 1, 2000.

Assembly Bill (AB) 1453, Chapter 796, Statutes of 1999, appropriated an additional \$3.4 million and extended the program until July 1, 2003.

AB 1118, Chapter 895, Statutes of 2001, appropriated an additional \$1.5 million and further extended the program until December 1, 2004.

AB 1598, Chapter 448, Statutes of 2003, appropriated an additional \$2.9 million and further extended the program until July 1, 2007. However, the FY 2004-05 Budget Act instead eliminated the program effective June 30, 2004, and transferred the \$2.9 million remaining in the California Residential Earthquake Recovery Fund (0285) to the General Fund.

In FY 2008-09, the remaining balance of \$178,000 in the California Residential Earthquake Recovery Fund was transferred to the General Fund per Government Code Section 16346. The California Residential Earthquake Recovery Fund was abolished.

Earthquake Loan Program

Pilot program implemented May 1, 1997 in partnership with Bank of America.

- Available in three counties (Humboldt, Alameda and Los Angeles).
- Provided loans not to exceed 8 years at 4.5% interest.
- Suspended in December 2000 after Bank of America withdrew.
- 14 loans were made between 1997 and 2000.

Earthquake Grant Program

- Implemented in August 1997.
- Restricted to California's 35 Counties in Seismic Zone 4.
- Two types of grants:
 - Mobile Homes – maximum grant amount of \$4,000.
 - Brace water heaters and installation of earthquake resistance bracing system.
 - Site Built Homes – maximum grant amount of \$8,000/up to \$30,000 for foundation repair/replacement.
 - Repair/replace foundation, cripple wall bracing, water heater bracing and gas shut-off valve.
- Eligibility Requirements:
 - Owner occupied – minimum of two years.
 - Low to moderate income.
 - Extra consideration given to applicants on fixed income, permanently disabled and 55 years or older.
- Over the 8-year grant period, \$9,192,000 was expended to retrofit 2,180 homes in 29 counties.

STAFF COMMENT

This item is for information only.

ISSUE 8: HEALTH INSURANCE REFORM

The California Department of Insurance requests a special fund expenditure authority increase of \$1,005,000 in 2015-16, and ongoing to address the continuing workload associated with health insurance reform.

BACKGROUND

This proposal converts two-year, limited-term expenditure authority approved by the Legislature in 2011-12 and 2013-14 into permanent funding to allow CDI to continue work in the area of health insurance reform and fulfill its responsibilities under federal health reform mandates.

According to CDI, their role in the reform of health insurance will remain ongoing. CDI has cited several factors that contribute to this observation: changes in the health insurance marketplace will require continued adjustment by both federal and state regulators, provisions of ACA will continue to be phased in until 2018, and regulatory adaptations will be required at the state level to due to growth in the health insurance marketplace.

STAFF COMMENTS

The limited-term positions previously authorized provided resources for the Department to play a key role in the statewide development of implementing the ACA. The additional resources included in this proposal will ensure that CDI continues its important role in the federal health care reform.

Staff Recommendation: Approve as budgeted.

ISSUE 9: HEALTH POLICY FORM REVIEW FOR ACA COMPLIANCE

The CDI has requested a \$280,000 (Insurance Fund) increase in expenditure authority for fiscal year 2015-16 and \$264,000 (Insurance Fund) for fiscal year 2016-17 and ongoing for 2.0 permanent attorney positions that are responsible for policy review related to the Patient Protection and Affordable Care Act (ACA) and related state legislation.

BACKGROUND

The Health Policy Approval Bureau (HPAB) within CDI reviews health insurance policy forms, including non-grandfathered policies for which full compliance with the ACA is required, grandfathered policy forms, and Medicare Supplement Forms. In 2013-14 the Legal Branch received limited term resources pursuant to SB 900 (Alquist, Chapter 659, Statutes of 2010) for implementation activities, policy form review and enforcement actions related to the California Health Benefit Exchange. The workload in this area did not materialize as projected and the attorneys were redirected to review policy forms submitted for compliance with the ACA.

According to CDI, the ACA-related mandates, the ongoing changes in federal and state law, and the rate of noncompliance by insurers has resulted in an attorney workload per policy form submission that far exceeds historic reviews. CDI's HPAB currently has 7.0 attorneys on staff to review policy forms, including the 1.5 redirected positions that were approved on a limited-term basis.

STAFF COMMENTS

Funding would be generated by fees assessed at the time the policy forms are approved. It is projected that staffing resources would increase revenue by conducting a quicker turnaround on the number of forms reviewed and approved. The workload to address the backlog and comply with the ACA mandates align with the positions requested in this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 10: WORKERS' COMPENSATION FRAUD PROGRAM

The CDI is requesting a \$5.417 million (Insurance Fund) increase in expenditure authority in 2015-16 and ongoing, to fund workers compensation fraud investigation and prosecution workload increases. Additionally, CDI is requesting 15.0 permanent positions in fiscal year 2015-16, and 18.0 permanent positions ongoing to support this workload.

BACKGROUND

The Workers' Compensation Fraud Program (Program) was established in 1991, and requires that insurers report suspected fraud, and contains a mechanism for funding enforcement and prosecution activities. The same law that established the Program in 1991 created the Fraud Assessment Commission (FAC). The FAC is comprised of seven members, appointed by the Governor, to serve a four-year term. The FAC meets on an annual basis, in order to determine the amount of funding necessary to support investigation and prosecution of workers' compensation insurance fraud. The FAC met for their annual meeting on September 10, 2014, and unanimously approved a 10 percent increase in the Workers' Compensation Assessment in fiscal year 2015-16.

CDI has proposed focusing resources associated with this request to investigate provider fraud in the workers' compensation system, which is on the rise and involves substantial financial losses. A provider in the workers' compensation system can include medical doctors, attorney's chiropractors, copy services, pharmacists, surgery centers, transportation companies, translation services, and providers of durable medical equipment. There are two components to this request: state operations, which totals \$2.19 million, and local assistance, which totals \$3.227 million.

The \$2.19 million directed to CDI's Fraud Division will support up to 18.0 new permanent positions. Six of the proposed positions are non-sworn support personnel, the remaining twelve are sworn Investigators. The remaining \$3.227 million will be available to local district attorney's to support the prosecution of complex medical provider cases involving workers' compensation insurance fraud.

STAFF COMMENTS

The increase in resources is consistent with the Governor-appointed Fraud Assessment Commission on September 10, 2014. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.
