

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER TOM DALY, CHAIR

TUESDAY, MARCH 25, 2014  
1:30 P.M. - STATE CAPITOL ROOM 447

VOTE-ONLY CALENDAR		
ITEM	DESCRIPTION	
<b>7920</b>	<b>STATE TEACHERS' RETIREMENT SYSTEM</b>	
ISSUE 1	CALSTRS BUDGET PROPOSALS	2
<b>7501</b>	<b>DEPARTMENT OF HUMAN RESOURCES</b>	
ISSUE 2	INDIAN GAMING	4
<b>9800</b>	<b>AUGMENTATION OF EMPLOYEE COMPENSATION</b>	
ISSUE 3	TRAILER BILL LANGUAGE: PHASE IN OF PAY INCREASE COUNTING TOWARD PENSIONABLE COMPENSATION	5
<b>7320</b>	<b>PUBLIC EMPLOYMENT RELATIONS BOARD</b>	
ISSUE 4	INCREASED LITIGATION WORKLOAD	6

ITEMS TO BE HEARD		
ITEM	DESCRIPTION	
<b>0509</b>	<b>GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT</b>	
ISSUE 1	CALIFORNIA COMPETES TAX CREDIT PROGRAM	7
ISSUE 2	MADE IN CALIFORNIA	9
<b>7730</b>	<b>FRANCHISE TAX BOARD</b>	
ISSUE 3	ENTERPRISE DATA TO REVENUE PROJECT	10
ISSUE 4	ASSET FORFEITURE ACCOUNTS	13
ISSUE 5	OTHER FRANCHISE TAX BOARD BUDGET PROPOSALS	14
<b>0860</b>	<b>STATE BOARD OF EQUALIZATION</b>	
ISSUE 6	UPDATE ON THE BOE BUILDING	15
ISSUE 7	FIRE PREVENTION FEE	17
ISSUE 8	OTHER BOARD OF EQUALIZATION BUDGET PROPOSALS	18
<b>7900</b>	<b>PUBLIC EMPLOYEES' RETIREMENT SYSTEM</b>	

ISSUE 9	TRAILER BILL LANGUAGE : CONTINGENCY RESERVE FUND	19
<b>7501</b>	<b>DEPARTMENT OF HUMAN RESOURCES</b>	
ISSUE 10	EXAMINATION AND CERTIFICATION ONLINE SYSTEM (ECOS) PROJECT	20
<b>8885</b>	<b>COMMISSION ON STATE MANDATES</b>	
ISSUE 11	MANDATES TO BE FUNDED	22
ISSUE 12	MANDATES PROPOSED TO BE SUSPENDED	25
<b>9210</b>	<b>LOCAL GOVERNMENT FINANCING</b>	
ISSUE 13	TRAILER BILL LANGUAGE: STATE-COUNTY ASSESSORS' PARTNERSHIP AGREEMENT	27
ISSUE 14	TRAILER BILL LANGUAGE: STRANDED SUPPLEMENTAL ROLL REVENUE	29
ISSUE 15	AID TO LOCAL GOVERNMENTS	30
<b>9100</b>	<b>TAX RELIEF</b>	
ISSUE 16	WILLIAMSON ACT	32

## VOTE-ONLY CALENDAR

### 7920 STATE TEACHERS' RETIREMENT SYSTEM

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#### VOTE-ONLY ISSUE 1: CALSTRS BUDGET PROPOSALS

There are nine budget change proposals related to the California State Teachers' Retirement System.

#### BACKGROUND

The CalSTRS budget includes nine BCPs outlined below:

- **Member Service Center Inland Empire.** CalSTRS request an augmentation of one time funding of \$1,389,000 in 2014-15, and \$446,000 in 2015-16, and four full-time positions to support the establishment of the Inland-Empire CalSTRS-operated Member Service Center. This Member Service Center will be similar to other full-service counseling offices in Glendale, Santa Clara, and Orange County.
- **Expansion of Sustainability Program.** CalSTRS requests a permanent augmentation of \$100,000 and one permanent full time position to expand existing sustainability efforts by creating a corporate sustainability program in accordance with the CalSTRS Strategic Plan. This new position will be responsible for developing a comprehensive corporate sustainability program at CalSTRS.
- **Legal Administrative Support.** CalSTRS budget includes a request for permanent funding in the amount of \$57,000 and one position to support administrative functions associated with increased attorney workload from new audits stemming from the hiring of an attorney and Legal Analyst in 2013-14.
- **Investment Portfolio Internal Management.** CalSTRS includes a permanent funding augmentation of \$2,186,000 and the establishment of 19 permanent positions to establish various positions to address an increase in internal management and of the investment portfolio. Thirteen positions will be assigned to the Investment Branch to manage a portfolio and the additional six positions would be assigned to work in the Financial Services Branch.
- **Member Service Improvement.** CalSTRS requests three permanent positions and \$205,000 to increase customer service levels in the contact center.
- **Reduce Reliance on Contractor Staff.** CalSTRS requests a permanent augmentation of nine full-time staff to reduce the reliance on external contractors. No additional funding is requested because contractor dollars will be redirected to cover staffing costs.

- **IT Infrastructure Security and ISO Workload Growth and Risk Management.** This budget proposal requests a permanent augmentation of \$544,000 and five permanent positions to ensure the proper completion of on-going preventive maintenance and security activities and coordination of annual security audits. Over the past four years, CalSTRS IT infrastructure assets have grown significantly in volume but the resources to manage them have not increased accordingly. Additional resources are needed to address the increase in workload hours to manage these IT assets.
- **Actuarial Resources.** CalSTRS budget includes a permanent funding augmentation of \$165,000 and one full time position to perform the new actuarial and benefit administration functions. In 2012-13 these duties were backfilled by Milliman, Inc., which is an outside consultant that performs other work for CalSTRS but it has been determined that having a contractor perform the new actuarial and benefit administration functions is not the most cost effective way of addressing the increase workload..
- **Business Renew – Pension Solution.** CalSTRS proposes \$61.6 million in one-time funding in 2014-15 and an additional \$151.4 million in one-time funding in 2015-16 through 2019-20 for project resources, staff and vendor costs to support the Pension Solution Project under the CalSTRS Business Renew program. The Pension Solution Project is a multi-year technology project to replace CalSTRS current pension administration system with a more modern one.

<b>STAFF COMMENTS</b>
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Staff has no comments on these BCPs.

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**Staff Recommendation: Approve as budgeted.**

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**7501 DEPARTMENT OF HUMAN RESOURCES**

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**VOTE-ONLY ISSUE 2: INDIAN GAMING**

This proposal requests ongoing funding of \$75,000 from the Indian Gaming Special Distribution Fund for disbursement to the Tribal Labor Panel to provide support for its labor relation duties.

**BACKGROUND**

In September 1999, as authorized by Section 10.7 of the Tribal-State gaming compacts, a Tribal Labor Relations Ordinance was adopted that provided for administration of labor relations concerns by a body referred to as the "Tribal Labor Panel." The Tribal Labor Panel has authority to handle dispute resolutions. The panel can hire staff as well as take other necessary actions to fulfill its obligations under the Tribal Relations Ordinance. The Department of Human Resources (CalHR) contracts with the American Arbitration Association to serve as the administrator of the Tribal Labor Panel.

In 2012, the Tribal Labor Panel was added to CalHR's budget for FYs 2012-13 and 2013-14. During those years, CalHR conducted a program review to determine what appropriation authority and program modification was needed on an ongoing level. Based on the review CalHR determined that an annual appropriation of \$75,000 should cover the dispute resolution costs and that any fund authority not used would revert to the Indian Gaming Special Distribution Fund.

**STAFF COMMENTS**

This proposal will provide a permanent funding solution for the administration of the Tribal Labor Panel.

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**Staff Recommendation: Approve as budgeted.**

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**9800 AUGMENTATION OF EMPLOYEE COMPENSATION**

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**VOTE-ONLY ISSUE 3: TRAILER BILL LANGUAGE: PHASE IN OF PAY INCREASE COUNTING TOWARD PENSIONABLE COMPENSATION**

This trailer bill language would affect any supervisor or manager of State Bargaining Unit 9 or 10 whose monthly salary increased effective July 1, 2014.

**BACKGROUND**

The Governor's budget includes a salary adjustment for 14 supervisory scientist classifications. Beginning in 2006, the supervisory division of the California Association of Professional Scientists has argued their members were performing similar work as certain engineering supervisors and should thereby receive similar salaries. The Department of Personnel Administration (DPA) held a hearing on the issue and on April 28, 2008 recommended salary increases for the supervisory scientist classifications.

The trailer bill language provides a phased approach for the application of the pay increase that would apply to a pension or benefit. This would ensure that those who are receiving the raises continue to have an incentive to remain in their positions; this prevents a rush of retirees after they receive their pay increases. This proposal is similar to language that was included in previous budgets when other groups received a salary increase like the Department of Water Resources employees.

**STAFF COMMENTS**

Last year the Subcommittee supported a salary adjustment for "like work like pay." The pay increases ultimately were not included in last year's budget. However, the inclusion of this proposal in the Governor's 2014-15 budget as well as the trailer bill language is consistent with actions taken last year.

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**Staff Recommendation: Approve as budgeted.**

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**7320 PUBLIC EMPLOYMENT RELATIONS BOARD**

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**VOTE-ONLY ISSUE 4: INCREASED LITIGATION WORKLOAD**

The budget proposes redirecting \$360,000 in General Fund operating dollars to create four new positions. These positions will address increased workloads due to new statutory requirements as well as increased workload due to a contract expiring, and expanding support functions in two regional offices.

**BACKGROUND**

The Public Employment Relations Board (PERB) is a quasi-judicial administrative agency charged with overseeing the collective bargaining statutes covering California public employees. Since 2001, PERB's jurisdiction expanded to cover additional public sector employees and their employers. Recent expansion to PERB's jurisdiction caused by new legislation has resulted in an increased workload. The new statutory requirements are:

- SB 1036 (Chapter 45, Statutes of 2012), the In-Home Supportive Services Employer-Employee Relations Act, which expanded PERB's responsibility to include the creation of a Statewide Authority to negotiate terms and conditions of employment for a specialized segment of the healthcare system.
- AB 646 (Chapter 680, Statutes of 2012), which amended the Meyers-Milas-Brown Act to establish fact finding as a mandatory method of resolving bargaining impasses.
- SB 1038 (Chapter 46, Statutes of 2012), which expanded PERB's authority with the merger of State Mediation and Conciliation Services.

**STAFF COMMENTS**

The additional staff requested will help PERB address new workload requirements as described above.

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**Staff Recommendation: Approve as budgeted.**

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## ITEMS TO BE HEARD

### **0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT**

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The Governor's Office of Business and Economic Development (GO-Biz) provides a single point of contact for economic development, business assistance and job creation efforts. The GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California, recruit new businesses, and support private sector job growth. GO-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, economic growth, export promotion, permit assistance, innovation, and entrepreneurship. GO-Biz administers and oversees the following programs: GO-Biz, California Business Investment Services, Office of the Small Business Advocate, and Infrastructure Finance and Economic Development.

Budgeted expenditures for 2014-15 are \$22.1 million with an increase of 10 positions over the current year. This represents a slight increase of \$1.3 million or 6 percent over the current year.

#### **ISSUE 1: CALIFORNIA COMPETES TAX CREDIT PROGRAM**

The Subcommittee will discuss GO-Biz's proposal for resources to implement the Governor's Economic Development Initiative.

#### **BACKGROUND**

This proposal provides resources to the Governor's Office of Business and Economic Development (GO-BIZ) to meet the requirements of AB 93 (Chapter 69, Statutes of 2013) and SB 90 (Chapter 70, Statutes of 2013) referred to as the Governor's Economic Development Initiative. Specifically, the proposal includes 10 two-year limited-term positions and provides \$965,000 in General Fund monies.

The proposal for 10 limited-term staff will be associated with the new workload to administer the California Competes program. The proposed positions include a Deputy Director for California Competes, a staff attorney, six analytical staff, a software specialist, and an administrative support staff.

Currently GO-Biz staffing consists of 71 positions under the following program areas: Small Business, International Trade, Innovation, Business Attraction, Business Retention, Legislation, Administrative Services, California Film Commission, California Infrastructure and Economic Development Bank and Division of Tourism.



AB 93 and SB 90 created three programs referred to as the Economic Development Initiative. The three programs include a statewide sales and use tax exemption for manufacturing and biotechnology research and development; a hiring tax credit; and the California Competes Tax Credit. GO-Biz is responsible for administering the \$200 million California Competes Tax Credit program. The purpose of the program is to attract, expand, and retain businesses in California.

The California Competes Credit is an income tax credit awarded by the newly created Committee. The Committee consists of the State Treasurer, Director of Finance, Director of GO-Biz, and one appointee from the Senate and Assembly. GO-Biz will negotiate agreements with applying businesses for approval by the Committee. The maximum amount any one taxpayer can receive from the California Competes Credit program is 20 percent of the total credits that may be allocated for that year. Additionally, 25 percent of the total California Competes Credits allocated in each fiscal year must be reserved for small business, which is defined as a company with gross receipts of \$2 million or less. The amount of credits that GO- Biz can allocate is as follows:

- \$30 million in FY 2013-14
- \$150 million in FY 2014-15
- \$200 million in FY 2015-16 through 2016-17

#### STAFF COMMENTS

The California Competes Credit is one of three programs created last year through the Governor's Economic Development Initiative. While it is important to provide adequate resources to enable a new program to be successful in its implementation it is unclear how this program will perform over the long run and what actual resources will be needed to allow this program to be successful.

The subcommittee may also wish to ask GO-Biz to provide additional information on how many small businesses they expect to apply for the credit and how they arrived at this estimate.

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**Staff Recommendation: Approve as Budgeted.**

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**ISSUE 2: MADE IN CALIFORNIA**

This proposal requests three positions and \$500,000 General Fund to meet the requirements of SB 12 (Chapter 541, Statutes of 2013), commonly referred to as the "Made in California" program.

**BACKGROUND**

The Made in California labeling program helps California businesses use and market their Made in California products. Under SB 12, Go-Biz administers the Made in California program and requires companies that want to participate to register with GO-Biz to designate its products as manufactured in California.

California and six states currently have their own "Made In" programs while the federal government has a "Made in the USA" promotional program. California's interpretation and enforcement of the federal "Made in the USA" promotional program is more restrictive than the federal government. In fact, California is the only state to not adhere to the federal Made in the USA standard.

The Made in California program is designed to leverage a return by generating additional sales of California products, which in turn would provide more revenue to the General Fund through taxes. The funding for this program is one-time and additional funding has not been developed.

**STAFF COMMENTS**

Staff has no comments on this proposal.

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**Staff Recommendation: Approve as budgeted.**

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## **7730 FRANCHISE TAX BOARD**

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The Franchise Tax Board (FTB) administers the personal income tax (the largest) and the corporation tax programs (third largest), contributors to the state's revenue. The department also performs some non-tax collection activities, such as the collection of court-ordered payments, delinquent vehicle license fees, and political reform audits. A three-member board governs the FTB, consisting of the Director of Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, manages the daily functions of the department. The Governor's Budget proposed expenditures of \$689.4 million (\$658.6 million General Fund, 9 percent decrease) and 5,818.2 positions, a 1 percent decrease from 2013-14 for FTB.

### **ISSUE 3: ENTERPRISE TO DATA REVENUE PROJECT**

The Franchise Tax Board will provide an update on their Enterprise to Data Revenue (EDR) project.

#### **BACKGROUND**

This proposal requests \$75.1 million, 23 permanent, 42 limited-term, and 6 temporary help positions in 2014-15 to continue the implementation of the EDR project. Additionally, this proposal requests provisional language to allow FTB to request temporary resources as needed in 2014.

The FTB uses information technology (IT) systems to process taxpayer returns and collect tax revenue. The EDR project will modernize several legacy IT systems. EDR is expected to collect and analyze more taxpayer information than is currently cost-effective to do under the existing system. This will help FTB better detect and collect taxes from those who are not paying the amount of taxes they owe.

The project is in its fourth year of development and continually undergoes a thorough review and approval process, which includes scheduled reporting at appropriate milestones. The EDR vendor contract is a benefits based fixed price contract, with a total contract of \$401 million. The term benefits based means the Solution Provider will be paid from the revenue generated by the EDR project solution. The Solution Provider will be paid on a quarterly basis, based on completed deliverables and the available benefits generated during that quarter. The first 25 percent of revenue will go directly to the state's General Fund.

The FTB recently engaged in an evaluation of the EDR project from the start of the project to understand what it has accomplished to date and to assess the remaining scope of work. As of July 31, 2013, the EDR project has successfully implemented 20 Early Initiatives. These initiatives have allowed FTB to maximize revenues and provide increased customer service enhancements making it easier for taxpayers to do business with FTB. The project has completed three major releases of the larger and

more complex implementation efforts associated with the project, which have led to process improvements in individual return and payment processing functions.

The evaluation also validated FTB's assumptions that the project was still on schedule, within project budget costs, and within scope. Revenues to date have exceeded projections for the first two years of the project. However, FTB has found that while revenue streams are exceeding expectations, some newly implemented processes are accelerating revenues while other efforts related to new processes are taking slightly longer than anticipated. The data shows that projected EDR revenue through 2017-18 will approach somewhere between \$4 billion to \$4.7 billion. FTB remains committed to using all efforts to meet \$4.7 billion over the life of the project although there is some indication that some of the revenue will come in after the project is complete.

#### LAO COMMENTS

The LAO proposes some changes to the staffing requests from the Governor's proposal. The LAO recommends that the Legislature increase the number of new permanent positions FTB is allowed to establish in order to better retain staff to those positions. In other instances, LAO recommends that the Legislature only authorize certain positions on a two-year limited-term basis until a sufficient workload history has been established.

The following is a summary of the changes from the Governor's budget proposal in comparison to the LAO recommendation for staff for the EDR project.

Description	Governor's Proposal	LAO recommendation
Audit	15 - Permanent Positions	6 - 2-year Limited-Term Positions 9 - Permanent Positions
Business Services	2 - Permanent Positions	No change
Personal Income Tax - Fraud	6 - Permanent Positions	2 - 2-year Limited-Term Positions 4 - Permanent Positions
Business Entity	6 - 2-year Limited-Term positions	3 - 2-year Limited-Term Positions 3 - Permanent Positions
Data Inspector Team	8 - 2-year Limited-Term positions	8 - Permanent Positions
Information Capture and Banking	6 - 2-year Limited-Term positions	6 - Permanent Positions
Web Business Services	1 - 2-year Limited-Term positions	1 - Permanent Position
Filing Programs	14 - 2-year Limited-Term positions	No change
Additional Temporary Positions	6 - Temporary Help positions	No change
Re-establish Existing Limited term positions	7 - 2-year Limited-Term positions	No change
<b>TOTAL</b>	<b>23 - Permanent Positions</b> <b>42 - 2-year Limited-Term Positions</b> <b>6 - Temporary Help Positions</b>	<b>33 - Permanent Positions</b> <b>32 - 2-year Limited-Term Positions</b> <b>6 - Temporary Help Positions</b>

**STAFF COMMENTS**

The EDR project remains on schedule, within project budget costs, and within scope. The project continues to be an example of a highly successful IT project. The proposal put forward by the LAO is reasonable and provides additional permanent positions to provide certainty for staff in these roles.

The LAO recommendation would approve 33 permanent, 32 2-year limited term, and 6 temporary help positions.

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**Staff Recommendation: Approve LAO recommendation as outlined in agenda.**

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**ISSUE 4: ASSET FORFEITURE ACCOUNTS**

The Franchise Tax Board will discuss its Asset Forfeiture Accounts and request for Budget Act Authority to expend the funds.

**BACKGROUND**

FTB requests Budget Act Authority of \$150,000 per fiscal year with provisional language to increase this amount upon approval by the Department of Finance and a 30-day notification to the Joint Legislative Budget Committee, to utilize funds deposited in the Special Deposit Fund – Asset Forfeiture Accounts.

In May 2011, DOF approved FTB's request to establish a Special Deposit Fund in order for FTB's Criminal Investigation Bureau to participate in Equitable Sharing Agreements with federal and state agencies that perform asset forfeitures. FTB's Criminal Investigation Bureau currently participates in three Asset Forfeiture Programs and the Special Deposit Fund balance is \$325,529 as of July 31, 2013.

The funds will be used for costs associated with criminal investigation law enforcement activities, such as additional training and equipment. Per the Equitable Sharing Agreements, these funds must be used to increase or supplement the resources of FTB. The shared resources cannot be used to replace or supplant any General Fund resources.

The proposed funding source is ongoing so that FTB can expend the funds without having to do an annual budget change proposal but instead approach the Joint Legislative Budget Committee to ask for authority if the funding level goes beyond \$150,000. The proposal includes provisional language to accomplish this goal. After two years, any additional funds revert to the US Department of Transportation and US Department of Justice.

**STAFF COMMENTS**

Staff recommends approval of this program.

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**Staff Recommendation: Approve as budgeted.**

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**ISSUE 5: OTHER FRANCHISE TAX BOARD BUDGET PROPOSALS**

The Subcommittee will consider the other Franchise Tax Board budget proposals.

**BACKGROUND**

The Governor's Budget includes the following Franchise Tax Board budget proposals:

- **Accounts Receivable Management Program.** FTB requests the reestablishment of 101 expiring two-year limited term Tax Program positions and \$7.7 million in General Fund. This request also includes provisional language to permit requests for temporary resources in 2014. The reestablishment of these positions will address the ongoing Accounts Receivable inventory. It is anticipated to be \$108 million in 2014-15 and 2015-16 at a cost benefit ratio of \$14 to \$1.
- **Implementing Legislation – Hiring Credits and Like Kind Exchanges.** FTB requests \$954,000 and six limited term positions for 2014-15 and \$961,000 and eight limited term positions for 2015-16 to implement and administer legislation that was chaptered last year.
- **Data Security.** FTB requests \$2.6 million and seven positions in 2014-15 to accommodate workload growth and the implementation of new tools associated with increased demands for securing FTB's critical assets and ensuring confidentiality and privacy of taxpayer information.

**STAFF COMMENTS**

These proposals appear non-controversial; staff recommends approval.

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**Staff Recommendation: Approve as budgeted.**

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## 0860 BOARD OF EQUALIZATION

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The State Board of Equalization (BOE) is comprised of five members: four members are each elected to the Board on a district basis, plus the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local 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) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of FTB decisions on personal income and corporation taxes.

The Governor's Budget proposes resource support of \$564.6 million (\$317.1 million General Fund), and 4,848.1 positions for the BOE in fiscal year 2014-15, as shown in the following table. The budget proposes a slight increase in total funding of \$2.1 million, and General Fund support increase of \$310,000, compared with spending estimates for the current year. In the proposed budget, the staffing increases slightly by 3.0 positions compared to current year estimates. However, the budget change proposals request converting expiring limited-term positions into permanent positions, which would effectively increase staff by the positions that were going to expire.

### ISSUE 6: UPDATE ON BOARD OF EQUALIZATION BUILDING

The Board of Equalization (BOE) will provide a brief update on any changes with regard to the BOE building since informational hearing held on August 30, 2014, by the Subcommittee.

#### BACKGROUND

The BOE Headquarters at 450 N Street has had a history of problems. The latest problem with the building reported on January 31, 2014 after an investigation found that waste water pipes between the 6<sup>th</sup> and 7<sup>th</sup> floors women's restroom showed extensive damage. Fixing the problem required two straight weekends of work and required the BOE to make two payments for the repairs, \$18 million and \$23 million for a total of \$41 million.

#### JLAC Action

On March 12, 2014, the Joint Legislative Audit Committee approved a request by Assemblymember Dickinson for the State Auditor to audit the problems at the BOE building. The audit will examine the cost of repairs made to the building to date.



**Proposed Legislation**

On February 11, 2014, Assemblymember Dickinson introduced AB 1656. This bill would state the intent of the Legislature to enact legislation to authorize the Department of General Services to enter into agreements for the relocation and consolidation of the BOE.

**STAFF COMMENTS**

Staff recommends holding this item open in order to discuss it in conjunction with the Department of General Services budget proposal for a Sacramento Long-Range Planning Study.

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**Staff Recommendation: Hold Open.**

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**ISSUE 7: FIRE PREVENTION FEE**

The BOE will discuss the budget proposal for the Fire Prevention Fee.

**BACKGROUND**

This budget change proposal includes \$7.3 million (Special funds) and 72.7 positions (permanently establishing a total of 54.0 positions, 9.0 new positions, and 9.7 temporary staff in 2014-15). In 2015-16 it requests \$6.7 million (Special Funds) and 63.0 positions and ongoing \$5.9 million (Special Funds) and 54.0 positions to continue processing mandated workload associated with the implementation of the Fire Prevention Fee. Additionally, the proposal includes provisional language to allow the BOE to collect additional expenses from the State Responsibility Area Fire Prevention Fund if the actual processing costs exceed budget authorization.

AB X1 29 (Chapter 8, Statutes of 2011) imposed an annual fee to be assessed on habitable structures located within the State Responsibility Area (SRA) in order to pay for fire prevention activities in the SRA that specifically benefit owners of the structures in the SRA. The bill required the BOE to assess and collect the SRA Fire Prevention Fee on behalf of the Department of Forestry and Fire Protection (CAL Fire).

In FY 2011-12, BOE submitted a budget change proposal to enact the new fee. The BOE received limited-term funding and staffing resources, which are set to expire on June 30, 2014. The nature of the fire prevention fee added complexity to administering the program that was not anticipated and the initial workload was vastly underestimated.

**LEGISLATIVE ANALYST'S OFFICE**

The LAO agrees with the Administration on the total number of positions for 2014-15. However, the LAO believes that the number of fee payer phone calls to the BOE will likely decline by more than one third, therefore the LAO recommends shifting 12 of the proposed phone-related positions from permanent to 2-year limited-term. This will provide the Legislature an opportunity to re-evaluate the program moving forward, rather than providing all permanent positions.

The LAO recommends that the Legislature establish 42 permanent positions, 21 two-year limited-term positions, and 9.7 one-year temporary positions.

**STAFF COMMENTS**

Staff recommends adopting the LAO's approach to the number of permanent positions. An evaluation down the road on the fee payer phone calls will allow the Legislature an opportunity to further examine the Fire Prevention Fee.

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**Staff Recommendation: Adopt LAO's Recommendation**

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**ISSUE 8: OTHER BOARD OF EQUALIZATION BUDGET PROPOSALS**

The Subcommittee will consider the other Board of Equalization budget proposals.

**BACKGROUND**

- **Southern California Appeals and Settlement Unit.** BOE requests \$3.6 million (\$2.4 million General Fund and \$1.2 million Reimbursements) and 22 two-year limited-term positions in 2014-15 and 2015-16 to continue the Southern California Appeals and Settlement Unit that was established as a pilot in the 2010 Budget Act. The original program included 22 limited-term positions, which are set to expire on June 30, 2014.
- **Intrusion Detection/ Intrusion Prevention System –Information Security.** BOE requests \$285,000 (\$186,000 General Fund and \$99,000 Reimbursements) and 2.0 permanent position in 2014-15 and \$255,000 (\$167,000 General Fund and \$88,000 Reimbursements) in 2015-16 and ongoing to administer, maintain, and inspect the network security solutions that comply with the Internal Revenue Service regulations.

**STAFF COMMENTS**

These proposals appear non-controversial; staff recommends approval.

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**Staff Recommendation: Approve as budgeted.**

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**7900 PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

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**ISSUE 9: TRAILER BILL LANGUAGE CONTINGENCY RESERVE FUND**

The proposed trailer bill language enables state employee and employer contributions toward their Health Maintenance Organization premiums to be deposited into the Contingency Reserve Fund.

**BACKGROUND**

The proposed language is consistent with how existing statute permits local contracting agency contributions for HMO premiums to be deposited in the Contingency Reserve Fund.

In April 2013, the CalPERS Board adopted health care contracts with five additional non-Kaiser HMO plans consistent with AB 2142 (Chapter 445, Statutes of 2012). The new HMO contracts include both capitation and a risk-adjusted fee for service component, which require a designated fund to process health care payments. This is a technical change to the current statute to enable CalPERS to deposit HMO premiums into the Contingency Reserve Fund and process health care payments consistent with the new HMO contracts.

**STAFF COMMENTS**

The Trailer bill language appears non-controversial; staff recommends approval.

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**Staff Recommendation: Approve Trailer Bill Language.**

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## 7501 DEPARTMENT OF HUMAN RESOURCES

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The Department of Human Resources (CalHR) is responsible for managing the state's personnel functions and represents the Governor as the employer in all matters concerning state employee-employer relations. CalHR is responsible for issues relating to recruitment, selection, salaries, benefits, position classifications, and provides a variety of training and consultation series to state departments and local agencies. For the budget year, CalHR's budget remains about the same as current year funding.

### ISSUE 10: EXAMINATION AND CERTIFICATION ONLINE SYSTEM (ECOS) PROJECT

The proposal requests resources for the remaining three years of the ECOS project, which will eliminate the outdated manual processes, reduce the cost and time required for exam administration, create real-time exam results for hiring departments, and mitigate risks by integrating seven disparate systems.

#### BACKGROUND

This proposal requests two limited-term positions and \$630,000 from the General Fund and Central Service Cost Recovery Fund to support the Examination and Certification Online System (ECOS) project.

The State Personnel Board (SPB) was responsible for the creation and administration of civil service examinations, certification of hiring lists, and the review of appointments. Pursuant to the Governor's Reorganization Plan (GRP) No. 1, selection-related responsibilities were transferred from SPB to CalHR, including the ECOS project.

The ECOS project is intended to upgrade the current electronic exam and list certification systems, which are comprised of the following: Examinations, Certifications, Web Exam, Profile, State Restriction of Appointment (SROA), Reemployment, Vacant Position Online Search (VPOS) and the manual Career Executive Assignment (CEA) Examinations and Certification systems.

Examination Processing. Almost all state departments use CalHR's systems to process their exams. The alternative to using CalHR's systems for an individual department include manual processing of exams or using their own systems. All current state employees will or have used the exam system to obtain positions within the state or to be eligible for promotion. The public also utilizes the exam system to apply for exams, and check their score and ranking.

Certification Processing. CalHR is charged with maintaining the eligibility list for all state departments and ensuring that the applicable rules and laws are applied by all. State personnel offices use the eligibility certification listing on a daily basis to look for candidates.

2013-14 Subcommittee Action. In 2013-14, CalHR submitted a Spring Finance Letter requesting a total of \$1,914,000 over four fiscal years with \$122,000 to be removed from CalHR's base budget at the end of 2016-17. The Legislature approved funding for the ECOS project for the 2013-14 year, and required quarterly reports on the status of the project. The Legislature also required CalHR to submit a 2014-15 budget change proposal for the remaining three years of the project.

<b>STAFF COMMENTS</b>
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At the time of the Spring Finance Letter, the Subcommittee made a recommendation to fund only one year of the project in order to gain a better understanding of how it was working. At the time of the Finance Letter, the project cost had increased by 111 percent which raised some concerns and the need to proceed with caution. Last year in subcommittee there was an understanding that CalHR had inherited the ECOs project from SPR, and that under this change in management CalHR had to re-evaluate the project. Under that evaluation, it was determined that the project schedule needed to be extended and the project costs increased as a result.

To date, CalHR has reported quarterly to the LAO on the project and has taken actions to correct the schedule and identify additional needs of the project. The project is on schedule and ready to move forward.

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**Staff Recommendation: Approve as Budgeted.**

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## 8885 COMMISSION ON STATE MANDATES

The Commission on State Mandates (COSM) is charged with the duties of examining claims and determining if local agencies and school districts are entitled to reimbursement for increased costs of carrying out activities mandated by the state. COSM was created as a quasi-judicial body and made up of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance and two additional members of local public bodies appointed by the Governor and approved by the Senate. This budget proposal appropriates the funding for staff and operation costs of COSM and appropriates non-education mandate payments to local governments. The Governor's Budget calls for expenditures of \$38.1 million, representing a decrease of 28 percent from the current year. The number of staff remains the same as the current year at 13.0 positions.

### ISSUE 11: GOVERNOR'S PROPOSAL TO FUND AND SUSPEND MANDATES

The Governor's Budget includes a proposal to fund and suspend mandates consistent with the mandates that are funded and suspended in the current year. Those proposed mandates are outlined below.

#### BACKGROUND

**Mandates to be Funded.** The Administration's budget proposes to fund \$33.6 million in mandate claims, which is down from last year's proposal. The main reason for the decrease is that claims submitted for the Sexually Violent Predator mandate has been reduced in scope due to the Passage of Proposition 83 in 2006. As a result, COSM has ruled that only two of the previous eight activities remain reimbursable. The estimated cost to the state is now \$7 million down from current year of \$21.8 million.

	2014-15 Total Estimate
<b>2014-15 Funded Mandates (000s)</b>	
Allocation of Property Tax Revenues	520
Crime Victims' Domestic Violence Incident Reports	175
Custody of Minors - Child Abduction and Recovery	11,977
Domestic Violence Arrest Policies	7,334
Domestic Violence Arrests and Victims Assistance	1,438
Domestic Violence Treatment Services	2,041
Health Benefits for Survivors of Peace Officers and Firefighters	1,780
Medi-Cal Beneficiary Death Notices	10
Peace Officer Personnel Records: Unfounded Complaints & Discovery	690
Rape Victim Counseling	344
Sexually Violent Predators	7,000
Threats Against Peace Officers	3
Unitary Countywide Tax Rates	255
<b>Total Funded Costs</b>	<b>33,567</b>

**Pre-2004 Mandate Obligations.** The budget proposes to continue to defer the payment of the pre-2004 mandate obligations. Under statute, these pre-2004 mandate obligations, which will total \$900 million, must be paid by 2021. These pre-2004 mandates contribute to the Wall of Debt, which the Governor plans to eliminate by 2017-18. The Governor's budget proposes to pay \$700 million in 2015-16 and \$150 million in 2016-17.

**Proposed Mandates to be Suspended.** The Governor's Budget proposes the suspension of mandates that were included in current year budget along with two new mandates. Mandates suspended in prior years are listed below for a total of \$513.8 million.

2014-15 Suspended Mandates (000s)	2014-15 Total Estimate
<i>Adult Felony Restitution</i>	\$0
<i>Absentee Ballots</i>	49,422
<i>Absentee Ballots – Tabulation by Precinct</i>	68
<i>AIDS/Search Warrant</i>	1,596
<i>Airport Land Use Commission/Plans</i>	1,263
<i>Animal Adoption</i>	36,305
<i>Brendon Maguire Act</i>	0
<i>Conservatorship: Developmentally Disabled Adults</i>	349
<i>Coroners Costs</i>	222
<i>Crime Statistics Reports for the Department of Justice &amp; CSRDOJ Amended</i>	158,624
<i>Crime Victims' Domestic Violence Incident Reports II</i>	2,010
<i>Deaf Teletype Equipment</i>	0
<i>Developmentally Disabled Attorneys' Services</i>	1,201
<i>DNA Database &amp; Amendments to Postmortem Examinations: Unidentified Bodies</i>	310
<i>Domestic Violence Background Checks</i>	19,222
<i>Domestic Violence Information</i>	0
<i>Elder Abuse, Law Enforcement Training</i>	0
<i>Extended Commitment, Youth Authority</i>	0
<i>False Reports of Police Misconduct</i>	10
<i>Fifteen-Day Close of Voter Registration</i>	0
<i>Firearm Hearings for Discharged Inpatients</i>	157
<i>Grand Jury Proceedings</i>	0
<i>Handicapped Voter Access Information</i>	0
<i>Identity Theft</i>	83,470
<i>In-Home Supportive Services II</i>	443
<i>Inmate AIDS Testing</i>	0
<i>Judiciary Proceedings (for Mentally Retarded Persons)</i>	274
<i>Law Enforcement Sexual Harassment Training</i>	0
<i>Local Agency Ethics*</i>	29
<i>Local Coastal Plans</i>	0
<i>Mandate Reimbursement Process I</i>	6,910



<i>Mandate Reimbursement Process II (includes consolidation of MRPI and MRPII)</i>	0
<i>Mentally Disordered Offenders': Treatment as a Condition of Parole</i>	4,909
<i>Mentally Disordered Offenders' Extended Commitments Proceedings</i>	7,222
<i>Mentally Disordered Sex Offenders' Recommitments - Verify Name</i>	340
<i>Mentally Retarded Defendants Representation</i>	36
<i>Missing Person Report III</i>	0
<i>Modified Primary Election</i>	1,738
<i>Not Guilty by Reason of Insanity</i>	5,214
<i>Open Meetings Act/Brown Act Reform</i>	111,606
<i>Pacific Beach Safety: Water Quality and Closures</i>	344
<i>Perinatal Services</i>	2,338
<i>Permanent Absent Voters II</i>	6,560
<i>Personal Safety Alarm Devices</i>	0
<i>Photographic Record of Evidence</i>	(78)
<i>Pocket Masks (CPR)</i>	0
<i>Post-Conviction: DNA Court Proceedings</i>	410
<i>Postmortem Examinations: Unidentified Bodies, Human Remains</i>	(466)
<i>Prisoner Parental Rights</i>	0
<i>Senior Citizens Property Tax Postponement</i>	481
<i>Sex Crime Confidentiality</i>	0
<i>Sex Offenders: Disclosure by Law Enforcement Officers</i>	0
<i>SIDS Autopsies</i>	0
<i>SIDS Contacts by Local Health Officers</i>	0
<i>SIDS Training for Firefighters</i>	0
<i>Stolen Vehicle Notification</i>	1,131
<i>Structural Wildland Firefighter Safety</i>	0
<i>Tuberculosis Control*</i>	133
<i>Very High Fire Hazard Severity Zones</i>	0
<i>Victims' Statement-Minors</i>	0
<i>Voter Identification Procedures</i>	7,553
<i>Voter Registration Procedures</i>	2,481
	<b>\$513,837</b>

\* Indicates new mandates proposed to be suspended in the Governor's 2014-15 budget.

#### STAFF COMMENTS

This list of mandates proposed to be funded is consistent with the action taken last year by the Legislature. The list of mandates proposed to be suspended is similar to action taken by the legislature with the exception of the proposal of the suspension of two new mandates. The two newly proposed mandates to be suspended are discussed in the next issue.

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**Staff Recommendation: Fund and suspend mandates consistent with the Governor's proposal with the exception of the two new mandates.**

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**ISSUE 12: MANDATES PROPOSED TO BE SUSPENDED**

The Governor's Budget proposes to suspend two mandates, Local Agency Ethics and Tuberculosis Control. Both mandates were proposed to be suspended in the 2013-14 Budget but ultimately were not suspended.

**BACKGROUND**

*Local Agency Ethics.* Imposes ethics training requirements on general law counties and eligible special districts including the following reimbursable activities: adopting a written policy when local officials can be reimbursed for travel, meals, lodging and other necessary expenses, and providing expense reports forms, information on ethics training courses, and maintain training records for five years. Last year the COSM found the cost estimate to be \$0 in implementing this mandate. Finance has stated that claims in the amount of \$29,336 have been submitted for 2006-07, 2010-11, and 2011-12, and therefore the mandate should be suspended. However, one claim in the amount of \$22,000 is for a water district that is not entitled to reimbursement, which brings the actual cost of the mandate to approximately \$7,000.

*Tuberculosis Control.* Requires local detention facilities to submit a written treatment plan to relevant health officers for tuberculosis (TB) patients when they are released or transferred to another jurisdiction and requires local health officers to review treatment plans from a health facility within 24 hours. Last year there was no statewide cost estimate available for this mandate. This year the statewide cost estimate is \$133,000.

**LEGISLATIVE ANALYST'S OFFICE**

*Local Agency Ethics.* Last year when these mandates were before the Legislature, the LAO stated that there is no obvious reason why a small number of local governments should be required to pay compensation or expense reimbursement to an elected official while this policy is optional for all other local governments. The LAO recommended that the Legislature eliminate all future costs related to the mandate by modifying state law to make payment of compensation or expense reimbursement optional for all local governments.

*Tuberculosis Control.* Last year, the LAO stated to the extent that suspending the mandate resulted in increased rates of TB infection, there would be unknown but potentially significant public and private health care costs. The LAO noted that any savings realized from suspending the TB control mandate would be offset by any increase in TB-related health care costs that resulted from the mandate suspension.

**STAFF COMMENTS**

During tough budget times, the process of suspending mandates has been one that was necessary. As we look into the future, there is a large one-time outstanding balance associated with mandate claims that need to be paid. The Controller's Office audits these audit claims and in some cases disallows as much as 50 percent of the total claims submitted. The Subcommittee may wish to consider accelerating the audits of the large amount of the past one-time mandate claims. By beginning this process now, the State can get a better estimate of the actual costs of the suspended mandates as it considers options to reduce the Wall of Debt in future years.

In previous years, the Governor has taken the approach to only fund mandates that relate to public safety and property taxes. Moving forward there needs to be a more thoughtful approach to funding and suspending mandates. Suspending mandates through the budget process bypasses the legislative process. Most mandates are the result of a law that endured a vigorous legislative process to be created, but the budget process considers suspending a list of them in a single action that lacks the policy discussion and context.

**2014-15 Budget.** The Department of Finance will argue that many of these mandates are proposed to be suspended because they are actions that local governments have been required to do for some time, and therefore should be common practice. However, there is no concrete evidence beyond the good faith of the local agencies that they will continue some of these practices.

Last year when an evaluation of the Local Agency Ethics mandate and the Tuberculosis Control mandate were made by COSM neither of them had a cost estimate. This year, the COSM determined that the Local Agency Ethics mandate had a cost of \$7,000. The Subcommittee may want to fund this mandate since the cost is minimal and the risk may be significant that local governments could decrease transparency because of the statute being deleted.

The second mandate proposed to be suspended is Tuberculosis Control. The cost estimate is \$133,000. The Subcommittee should evaluate whether or not the cost of paying this mandate outweighs the risk and potential cost of a TB outbreak especially since there has been recent reports of TB resistant homeless patients in Los Angeles.

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**Staff Recommendation: Reject Governor's Proposal to suspend the Local Agency Ethics and Tuberculosis Control mandates.**

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**9210 LOCAL GOVERNMENT FINANCING****ISSUE 13: TRAILER BILL LANGUAGE: STATE-COUNTY ASSESSORS' PARTNERSHIP AGREEMENT**

The Department of Finance will discuss the trailer bill language to implement a State-County Assessors' Partnership Program.

**BACKGROUND**

The Governor's budget includes a three-year pilot program to be funded at \$7.5 million per year, and to be administered by the Department of Finance. The Administration expects the program to generate additional property taxes for schools and other local governments. The program is limited to nine county assessors' offices; they will be competitively selected from a mix of urban, suburban, and rural counties, to hire additional staff to administer this pilot program.

To participate in the program, the county must submit an application to Finance demonstrating work to be performed. The county must also agree to provide its assessor's office with a specified amount of matching county funds each fiscal year to generate additional property tax revenues for local agencies by doing the following:

- Enroll newly constructed property and property ownership changes
- Reassess property to reflect current market values
- Enroll property modifications that change the property's taxable value
- Respond to assessed valuation appeals

Finance will evaluate the program toward the end of the three-year pilot phase and report to the Legislature.

**LEGISLATIVE ANALYST'S OFFICE**

The LAO recommends that the Legislature approve the pilot program with the following changes:

- Ensure each county has the same fiscal incentive to participate
- Provide participating counties greater funding certainty
- Promote representative and consistently measured results
- Potentially increase near-term state savings on school spending

**STAFF COMMENTS**

The Governor's office is still working with the County Assessors on the changes to the language to improve the program. The Subcommittee may wish to wait for the final language before approving the pilot program. Staff recommends that this item be held open.

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**Staff Recommendation: Hold Open.**

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**ISSUE 14: STRANDED SUPPLEMENTAL ROLL REVENUE PROPOSAL**

This trailer bill language would create a process for distributing supplemental roll revenue when all of a county's K-12 schools are basic aid.

**BACKGROUND**

The Revenue and Taxation Code section 75.50 contains a formula for distributing supplemental roll property tax revenues. Each affected taxing entity receives a specified share based primarily on its share of AB 8 base property tax revenues.

After the county, cities, special districts, Community Colleges, and the County Office of Education have been filled to their statutory caps pursuant to the formula, the remaining supplemental roll revenue is distributed to non-basic aid and K-12 schools. The statute states that the remainder shall be distributed to each K-12 based on its average daily attendance as certified by the Department of Education.

Since basic aid schools have a certified average daily attendance of zero, they receive no supplemental roll revenue. Since basic aid schools are filled to their revenue limits solely with property tax revenues, their need for supplemental roll revenue is less than that of the non-basic aid districts that receive less property tax revenue.

Plumas County has a unique situation. Each affected taxing entity has been filled to its statutory supplemental roll cap, and there are no basic aid K-12 schools in the county to absorb the remaining revenues. As a result, for at least three years the previous county auditor-controller has been holding the excess monies in an impound account. The current balance is at least \$2.6 million.

The trailer bill language will allow for the distribution of the supplemental roll property tax revenues.

**STAFF COMMENTS**

This language appears non-controversial; staff recommends approval of the language.

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**Staff Recommendation: Approve Trailer Bill Language.**

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**ISSUE 15: AID TO LOCAL GOVERNMENTS**

The budget proposes \$8.5 million in backfill to San Mateo, Amador and Alpine counties due to circumstances arising from the triple flip that occurred in connection with the state's issuance of Economic Recovery Bonds (ERB) and the Vehicle License Fee (VLF) swap.

**BACKGROUND**

Similar to past years, the shortfall only affects a small number of counties. The 2013-14 Budget Act provided \$1.874 million to backfill Alpine, Amador and San Mateo counties for shortfalls that occurred in 2011-12. The proposed \$8.5 million is for shortfalls that occurred in 2012-13. The backfills are provided in arrears so there is time to do the necessary calculations.

The reason for the spike in 2012-13 is due mainly to the fact that schools received additional property tax from the two rounds of the Redevelopment Due Diligence Reviews.

In 2004, two policies shifted local property tax from schools to cities and counties, requiring the state to backfill schools for the property tax revenues.

- The first of these events was the "triple flip," related the state issuance of the ERBs. To pay debt service on the bonds and retain the overall sales tax rate, the local sales tax for cities and counties was reduced by ¼ cent and the State sales tax was increased by ¼ cent to repay the ERBs. To hold cities and counties harmless, property tax was redirected from schools to cities and counties. The ¼ cent rate is to be restored when the ERBs are repaid. It is anticipated that the ERBs will be repaid by 2016.
- The second event was the enactment of the "swap" which provided local property taxes to cities and counties instead of a state backfill to make up for the VLF reductions in 2004. The goal was to provide a more reliable funding mechanism to backfill cities and counties for the local revenue cut by the State when the VLF tax on motor vehicles was reduced from 2.0 percent to 0.65 percent.

As a result, cities and counties receive increased property taxes from two sources: first, the countywide property tax ERAF and, second (if ERAF resources are not sufficient), base K-14 district property tax revenues. State law specifies, however, that "basic aid" K-14 district property tax revenues are not available for allocation to cities and counties for this purpose.

**STAFF COMMENTS**

Since the release of the Governor's Budget, additional information shows that the amount for San Mateo is likely to increase by about \$4 million. The Subcommittee may wish to consider waiting until final estimates are received before moving forward with this item. At this time, staff recommends holding this item open.

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**Staff Recommendation: Hold Open.**

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## 9100 TAX RELIEF

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### ISSUE 16: WILLIAMSON ACT

The Department of Finance will provide background information on the Williamson Act.

#### BACKGROUND

The Williamson Act Subvention Program was designed to help reduce development on agricultural and open-space lands by offering property tax relief to landowners who contractually agree to restrict the use of their property. The Williamson Act provides for subvention payments to local governments in order to offset loss of property tax revenue due to these lower assessments. The amount of the state subvention to localities is based on the amount and type of land under contract, but has always been less than the actual reduction in local property tax revenues. The Department of Conservation, which administers the program, estimates that individual landowners have saved anywhere from 20 percent to 75 percent in reduced property taxes each year, depending upon their circumstances.

The contracts entered into between local governments and property owners are ten-year contracts. The contracts are typically renewed each year for an additional year, such that the term on the contract remains a constant for ten years. In the event the contract is not renewed, the tax on the property gradually returns over a ten-year period to the level at which comparable but unrestricted land is taxed.

Up until 2008-09, the state annually appropriated around \$35 million to \$40 million from the General Fund to local governments to partially offset the property tax loss to local governments from entering into Williamson Act contracts. Funding for subventions was suspended in the *2009 Budget Act*. While the *2010 Budget Act* also did not include funding for subventions, a one-time appropriation of \$10 million from the General Fund for 2010-11 was made for this purpose in 2010 policy legislation (Chapter 722, Statutes of 2010 [SB 863, Committee on Budget and Fiscal Review]).

#### LEGISLATIVE ANALYST'S OFFICE

Historically, the LAO has questioned the cost-effectiveness of the subvention program. The main concerns with the program include:

- The state exercises no control over the specific land parcels that are put under contract, and as such, cannot ensure that participating lands are in fact in terms of development pressures. It is likely that some lands under contract would not be developed even absent the Williamson Act subventions. As a result, a portion of the tax reduction may result in no behavior change by the landowner.

- If development pressures should occur, this results in creating incentives for the landowner to cancel or not renew the contract. As a result, the program may not result in permanent changes to land use patterns but simply delay for a relatively short period of time the development of local space and agriculture lands.

<b>STAFF COMMENTS</b>
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The Subcommittee may wish to ask the Department of Finance what would be the cost to fund the entire program? What is the minimum that the state could fund to move the program forward?

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**Staff Recommendation: Hold Open.**

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