

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER TOM DALY, CHAIR

TUESDAY, MAY 20, 2014
3:30 P.M. - STATE CAPITOL ROOM 437

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VOTE-ONLY CALENDAR

0840 STATE CONTROLLER'S OFFICE

VOTE-ONLY ISSUE 1: 21ST CENTURY PROJECT

The State Controller's Office (SCO) requests five positions and \$6.529 million (\$3.59 million General Fund, \$1.265 million Reimbursements, and \$1.674 million Special Fund) for FY 2014-15 to support ongoing legal costs associated with the 21st Century project. The SCO has requested that Budget Bill language and Control Section language be added to the 2014 Budget Act. This proposal also includes Trailer Bill language that would extend the sunset date of the 21st Century Project until June 30, 2017.

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.

2014-15 Budget Proposal. The budget proposal includes multiple segments, which include lease obligations, consulting contracts for external consultants, costs associated with legal proceedings and data center costs. The total amount requested to support these efforts is \$6.529 million, including:

- \$645,000 for five one-year limited-term positions responsible for document retrieval, developing a project history and timeline, and maintenance of the MyCalPays system in support of the legal team.
- \$996,000 for the project management advisory contract (e.g. Flagship Advisors). These project advisors provide assistance with business processes, integration, coordination, configuration, customization, testing, training, installation, data conversion, and work force transition. There are currently two Flagship consultants.
- \$2.5 million for legal counsel. Legal costs are expected to include efforts to defend the state against claims made by SAP. SCO has requested provisional language to provide additional funding for legal costs, if necessary.
- \$904,000 for costs associated with leasing a facility.
- \$1.193 million for costs associated with IT services from the Department of Technology. These services include infrastructure support and data center storage support.
- \$266,000 for data center services that will support the maintenance of the software purchases that are a component of the 21st Century Project.

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 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. This trailer bill language would propose to extend these provisions by another three years to June 30, 2017.

Provisional Budget Bill Language. SCO has 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.

LEGISLATIVE ANALYST'S OFFICE

On March 19, 2014, the LAO released a report on the 2014-15 Budget: 21st Century Project. In the analysis, the LAO points out the following:

- **The 2013-14 spending on legal effort far exceeds the budgeted amount.** The 2013-14 budget provided \$1 million for outside legal costs. However, according to the SCO, outside counsel is estimated to be \$5.7 million for the current year.
- **Projected costs for legal effort in 2014-15 exceed requested amount.** The Governor's budget proposes \$2.5 million for SCO's outside legal counsel for 2014-15 and includes provisional language to budget additional litigation beyond the amount. SCO estimates that the legal fees for 2014-15 is somewhere between \$4.5 million and \$5 million.
- **Lacking project assessment.** During consideration of the FY 2013-14 budget, the LAO proposed the SCO conduct an assessment of the 21st Century Project.

STAFF COMMENTS

Legal Fees. It is estimated that the legal fees for 2013-14 will be \$5.7 million and in the range of \$4.5 to \$5 million for 2014-15.

Independent Assessment. At the April 1, 2014, hearing, the Subcommittee requested that the SCO work with DOF on an assessment. The assessment was included as part of the May Revise and will be discussed under the items to hear.

Vote-only Recommendation: Approve as budgeted including budget bill language and trailer bill language.

VOTE-ONLY ISSUE 2: UNCLAIMED PROPERTY: HOLDER COMPLIANCE INITIATIVE

This budget change proposal requests 23 permanent positions and \$2.475 million from the Unclaimed Property Fund in 2014-15, including ongoing support for the SCO's holder compliance program.

BACKGROUND

The SCO performs field audits of California holders of unclaimed property, including banks, hospitals, retailers, utility companies, manufacturers, insurance companies, major financial institutions, and multinational examinations of out-of-state holders of unclaimed property.

In 2009, audits performed an analysis of holder compliance by using Franchise Tax Board records. The analysis showed there may be a significant level of non-compliance with the California Unclaimed Property Law. One of the trends that SCO is currently focusing on is underreporting by banks and credit unions of Certificates of Deposit and Individual Retirement Accounts. Since 2011-12, SCO has identified \$3.5 million in CDs and IRAs from banks and credit unions that have consistently underreported in these areas.

Outreach. These activities focus on identifying holders that were either inconsistent or never reported unclaimed property. The efforts to increase compliance through outreach included educational events, agency outreach, and publications and forms.

Compliance. These efforts include compelling a holder to voluntarily file by preparing letters to send to holders identified through outreach efforts. Efforts to increase compliance include letters and phone calls, site visits, and referrals.

LEGISLATIVE ANALYST'S OFFICE

The LAO found that in prior year projections, holder outreach and compliance would result in \$5.5 million of property per year returned to its owners, and \$4.1 million of property per year would be remitted to the SCO. The audits have resulted in about \$2.3 million of property returned to owners and \$4.1 million remitted to the SCO. The LAO has observed that the SCO's holder compliance initiative has remitted more property than originally projected but the results have varied from the earlier projections. LAO recommends that the positions be provided on a two-year, limited-term basis and that the Legislature continues to monitor outcomes related to this issue.

STAFF COMMENTS

There seems to be additional information needed to evaluate this program. Staff concurs with the LAO recommendation to keep these positions as two-year, limited-term positions in order to continue to gather information and evaluate the program.

Vote-only Recommendation: Adopt the LAO proposal for two-year, limited-term positions.

8885 COMMISSION ON STATE MANDATES

VOTE-ONLY ISSUE 3: MANDATES TO BE SUSPENDED

Proposed Mandates to be Suspended. The Governor's Budget proposes the suspension of mandates that were included in the 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 & 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 & 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
	\$513,837

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

STAFF COMMENTS

The Subcommittee took action on March 25, 2014, to reject the suspension of the Tuberculosis and Ethics mandates that are new to be suspended this year. The action today is to continue the suspension of mandates that were also suspended in the 2013-14 Budget Act and would continue to fund these two mandates.

Vote-only Recommendation: Suspend mandates consistent with the Governor's proposal with the exception of the two new mandates, which the Subcommittee rejected on March 25, 2014.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**VOTE-ONLY ISSUE 4: CALPERS ADMINISTRATION BUDGET ADJUSTMENTS**

The May Revision proposes adjustments to eight items in the California Public Employees Retirement System's (CalPERS) administrative budget based on the 2014-15 CalPERS budget approved during the April 16, 2014, board meeting.

BACKGROUND

- Item 7900-003-0830, CalPERS board administrative costs paid by the Public Employees Retirement Fund, decreased by \$19,393,000;
- Item 7900-015-0815, CalPERS board administrative costs paid by Judges' Retirement Fund, decreased by \$286,000;
- Item 7900-015-0820, CalPERS board administrative costs paid by Legislators' Retirement Fund, decreased by \$60,000;
- Item 7900-015-0822, CalPERS board administrative costs paid by the Public Employees Health Care Fund, increased by \$522,000;
- Item 7900-015-0830, CalPERS board administrative costs paid by the Public Employees Fund, increased by \$11,582,000 and 42 positions;
- Item 7900-015-0833, CalPERS board administrative costs paid by the Annuitants' Health Care Coverage Fund, decreased by \$235,000;
- Item 7900-015-0884, CalPERS board administrative costs paid by the Judges' Retirement System II Fund, decreased by \$12,000; and
- Reimbursements to the main item decreased by \$2,713,000.

STAFF COMMENT

Staff has no concerns with this proposal.

Vote-only Recommendation: Approve May Revision proposal.

9800 AUGMENTATION FOR EMPLOYEE COMPENSATION**VOTE-ONLY ISSUE 5: AUGMENTATION TO EMPLOYEE COMPENSATION**

The May Revision proposes increases in employee compensation resulting from updated health care and dental enrollment figures, updates to salary information for salary increases previously provided in the Governor's budget, updates to salary survey estimates for the California Highway Patrol (BU 5), health and dental benefits for the state employees of the Judicial Branch and Commission on Judicial Performance, and increases to salaries and benefits associated with International Union of Operating Engineers (BU 13). Additionally, this request includes provisional language.

BACKGROUND

Item 9800 in the budget allows for adjustments in departmental budgets to account for changes in employee compensation, including salaries, health and retirement benefits.

This proposal would increase Item 9800-001-0001 by \$12,594,000, would increase Item 9800-001-0494 by \$20,217,000, and would increase Item 9800-001-0988 by \$9,957,000 to reflect changes discussed above.

Proposed Provisional Language. Additionally, this item includes provisional language to allow flexibility to adjust estimates for final health rates, which are not expected until the end of June 2014; and to ratify provisions that require the expenditure of funds associated with various Memorandum of Understanding (MOUs).

1. The Director of Finance may adjust this item of appropriation to reflect the health benefit premium rates approved by the Board of Administration of the California Public Employees' Retirement System for the 2015 calendar year. Within 30 days of making any adjustment pursuant to this provision, the Director of Finance shall report the adjustment in writing to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committees in each house of the Legislature that consider appropriations.

2. By inclusion of this provision, for purposes of Section 3517.63 of the Government Code, the Legislature hereby ratifies provisions that require the expenditure of funds with: (1) addendum to the Memorandum of Understanding (MOU) dated November 22, 2013, with State Bargaining Unit 1 (State Employees International Union) for Aviation Consultants, (2) addendum to the MOU dated March 4, 2014, with State Bargaining Unit 19 (American Federation of State, County, and Municipal Employees) for Recreational Therapists, and (3) the MOU dated May 5, 2014, with State Bargaining Unit 13 (International Union of Operating Engineers). The estimated costs to implement these agreements are included in this item.

STAFF COMMENTS

Staff has no issues with this proposal.

Vote-only Recommendation: Adopt May Revision proposal and provisional language.

VOTE-ONLY ISSUE 6: CONTROL SECTION 3.60

The May Revision includes revised budget bill language to Control Section 3.60 to capture the proposed retirement rates.

BACKGROUND

The General Fund will increase by \$342,655,000, other special funds will increase by \$166,180,000, and various other nongovernmental cost funds will increase by \$65,828,000 for retirement rate adjustments. The estimated increase in retirement costs are due to the following reasons.

First, on February 20, 2014, the California Public Employees' Retirement System (CalPERS) Board of Administration adopted new demographic assumptions as part of a regular review of demographic experience. Key assumption changes included longer post-retirement life expectancy, earlier retirement ages, and higher than expected wage growth for State Peace Officers/Firefighters and California Highway Patrol.

The impact of the assumption changes will be phased in over three years, with a twenty-year amortization, beginning in FY 2014-15. Of the total, this action accounts for \$430,092,000 (\$254,244,000 General Fund).

Second, retirement rates are higher than originally projected in the Governor's budget due to actual payroll growth being less than actuarially assumed, employees retiring earlier than actuarially assumed, and differences in projected employer contributions and benefit payments as compared to actuals. Of the total increases, this action accounts for \$146,571,000 (\$88,411,000 General Fund).

STAFF COMMENTS

Staff has no comments on this proposal

Vote-only Recommendation: Adopt revised budget bill language as provided in the May Revise.

9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

VOTE-ONLY ISSUE 7: RETIREE HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

The item proposes provisional language to ensure that final health and dental rates may be adjusted after they are updated at the end of June 2014. The budget currently includes estimates.

STAFF COMMENTS

Proposed Provisional Language:

- *The Director of Finance may adjust this item of appropriation to reflect the health benefit premium rates approved by the Board of Administration of the California Public Employees' Retirement System for the 2015 calendar year. Within 30 days of making any adjustment pursuant to this provision, the Director of Finance shall report the adjustment in writing to the Chairperson of the Joint Legislative Budget Committee and the Chairperson of the committees in each house of the Legislature that consider appropriations.*

STAFF COMMENTS

Staff has no concerns with this proposal.

Vote-only Recommendation: Adopt Provisional language.

9600 DEBT SERVICE GENERAL OBLIGATION BONDS AND COMMERCIAL PAPER PROGRAM**VOTE-ONLY ISSUE 8: COMMERCIAL PAPER TECHNICAL AMENDMENTS**

The May Revision proposes trailer bill language to cap qualified expenses on the state's commercial paper program and clarifies eligible expenditures.

BACKGROUND

State law permits the issuance of Commercial Paper (CP) Notes for the General Obligation (GO) Bond program. CP Notes enable the State to fund departments' cash needs for projects on a "just-in time" basis and then refund the short-term debt with long-term debt when it is most advantageous. This method of funding allows the State to achieve lower overall financing costs by limiting the amount of undisbursed bond funds derived from long-term debt obligations. In addition, CP Notes provide flexibility to the State in new money issuance as CP Notes can be issued with greater ease and much faster than long-term bonds.

In order to issue CP Notes, the State Treasurer's Office (STO) incurs a variety of expenses, including, but not limited to, letter of credit (LOC) fees, broker dealer fees, and issuing and paying agent (IPA) fees. These fees are necessary to issue CP Notes. Dealers are responsible for selling and remarketing new and rollover CP Notes, while the IPA is required to process dealer trades and other transactions associated with the issuance of CP Notes.

The Attorney General's Office (AGO) recently advised the STO to seek an amendment to Government Code Section 16731 (b) to place a limit on the appropriation authority for CP Notes expenses to comply with the requirement that an appropriation from the General Fund must include both a specific amount and a designated purpose or purposes.

In 2003, legislation was enacted to address a similar issue with Government Code Section 5924, which authorizes the payment of costs in connection with credit enhancements and liquidity agreements. The legislation placed a cap of 2 percent, which was increased to 3 percent in 2009.

The STO currently has \$1.725 billion in LOCs and CP Notes. As of May 1, 2014, there was \$527.46 million of CP Notes outstanding, and the remaining \$1.2 billion is expected to be issued over the next several months. If CP Notes could not be issued, the outstanding CP Notes would be payable by the State's General Fund within 90 days.

STAFF COMMENT

This change is consistent with a change to Government Code Section 5924 and will provide a cap of up to 3 percent on CP Notes.

Vote-only Recommendation: Approve May Revision Trailer Bill Language.

9620 CASH MANAGEMENT AND BUDGETARY LOANS

VOTE-ONLY ISSUE 9: SUPPORT, CASH MANAGEMENT AND BUDGETARY LOANS

The May Revision proposes technical changes to Cash Management and Budgetary Loans.

BACKGROUND

The technical changes are outlined below:

- Decrease Item 9620-001-0001 by \$30 million General Fund (from \$60 million to \$30 million) due to revised projections of lower interest rates and flow borrowing needs.
- Increase Item 9620-002-0001 by \$400,000 (from \$54 million to \$54.4 million) to reflect the latest loan repayment schedule.
- Decrease the General Fund external borrowing cost by \$30 million (from \$40 million to \$10 million) due to reduced daily cash flow borrowing needs.

The two-year General Fund savings is \$86.9 million.

STAFF COMMENTS

Staff has no concerns with this proposal.

Vote-only Recommendation: Adopt May Revision proposal.

9210 LOCAL GOVERNMENT FINANCING

**VOTE-ONLY ISSUE 10: INSUFFICIENT EDUCATIONAL REVENUE AUGMENTATION FUND
BACKFILL**

The May Revision includes an augmentation of \$4,210,000 to ensure sufficient funds are available to backfill the Vehicle License Fee (VLF) Swap and Triple-Flip costs for San Mateo County.

BACKGROUND

The Governor's January 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 VLF swap.

The May Revision proposes an additional \$4,210,000 for San Mateo County.

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.

STAFF COMMENTS

The Subcommittee heard this item on March 25, 2014, and was waiting for updated estimate to reflect an anticipated increase for San Mateo County.

Vote-only Recommendation: Adopt May Revision proposal and Governor's January proposal.

VOTE-ONLY ISSUE 11: TRAILER BILL LANGUAGE: STATE-COUNTY ASSESSORS' PARTNERSHIP AGREEMENT

The May Revision proposes various amendments to the State-County Assessors' Partnership Program Trailer Bill Language

BACKGROUND

The May Revision provides modifications to the January proposal for the State-County Assessors' Partnership including:

- Clarifying program funds may be used to assess and reassess business personal property as well as real property
- Providing more flexibility in the distribution of grant funds to enable, for example, funds that are not claimed by assessors' offices in larger counties to be used to fund the participation of additional assessors' offices in smaller counties.
- Allowing program funds to be used for information technology systems that can assist assessors' offices in reassessing property to its appropriate value.

The Governor's January 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.

STAFF COMMENTS

The Subcommittee heard this item on March 25, 2014, where the committee was waiting for additional changes from Finance. The May Revision changes are consistent with expected changes.

Vote-only Recommendation: Adopt May Revision Trailer Bill Language.

7760 DEPARTMENT OF GENERAL SERVICES**VOTE-ONLY ISSUE 12: VARIOUS MAY REVISION PROPOSALS RELATED TO DGS**

The May Revision proposes four changes to the budget for the Department of General Services (DGS).

BACKGROUND

DGS has four May Revision proposals as follows:

1. Office of Public School Construction Audit Funding Shift. The Office of Public School Construction (OPSC) requests \$5.4 million in FY 2014-15 and \$2.75 million in FY 2015-16 in state operations expenditure authority from the State School Site Utilization Fund and commensurate reductions from the 2006 State School Facilities Fund. This action would reserve the State School Site Utilization Fund for OPSC state operations. The proposal proposes trailer bill language to transfer deferred maintenance funds to the State School Site Utilization Fund.

2. Water Conservation/ Drought Response. The May Revision requests a one-time increase in the Service Revolving Fund (SRF) expenditure authority of \$5.4 million to implement water efficiency and conservation measures in state facilities in response to Governor's Brown's Executive Order B-18-12 and Management Memo 14-02 involving the Proclamation of Emergency on January 17, 2014. The proposal will result in a one-time increase to all 2014-15 building rental rates of \$0.05 per sq. ft. and an increase to the Statewide Surcharge of \$275,000.

3. Transfer of Deferred Maintenance state operations to the Emergency Repair Program state operations. The OPSC requests to transfer \$83,000 of state operations expenditure authority from the State School Deferred Maintenance Fund to the School Facility Emergency Repair Account to fund state operation costs in the School Facilities Emergency Repair Program (ERP). OPSC no longer administers apportionments under the Deferred Maintenance Program due to the passage of the Local Control Funding Formula (Chapter 47, Statutes of 2013). OPSC continues to administer the ERP as a result of the Williams Settlement of 2004 and this proposal continues that practice.

4. School Facility Program Office of State Audits and Evaluations. This proposal requests to shift \$560,000 in 2006 State School Facilities Fund expenditure authority approved in FY 2015-16 to FY 2014-15 and \$594,000 approved in FY 2017-18 to FY 2016-17. This will accelerate bond authority used to fund oversight of the Kindergarten-University Public Education Facilities Bond Act of 2006 by the Department of Finance, Office of State Audits and Evaluations. This request is cost neutral over the life of the Kindergarten-University Public Education Facilities Bond Act of 2006 and will align audit resources with program needs.

STAFF COMMENTS

Staff has no comments on these proposals. Staff will note that there is a discussion in Subcommittee No. 2 regarding the Emergency Repair Program, which relates to the third DGS proposal, the Transfer of Deferred Maintenance of State operations. Staff recommends that Sub. 4 conform to any action taken by Sub. 2 on this issue if it differs.

Vote-only Recommendation: Adopt May Revision Proposals along with trailer bill language.

7501 DEPARTMENT OF HUMAN RESOURCES

VOTE-ONLY ISSUE 13: IN-HOME SUPPORTIVE SERVICES EMPLOYER-EMPLOYEE RELATIONS ACT

The May Revision proposes additional positions to implement the Governor's Initiative to create a Statewide Authority to oversee labor relations for the In-Home Supportive Services program (IHSS).

BACKGROUND

The proposal requests five permanent positions and \$848,000 (\$424,000 General Fund and \$424,000 Reimbursements) in FY 2014-15, and nine permanent positions and \$1,359,000 (\$679,000 General Fund and \$686,000 Reimbursements) in FY 2015-16 to address workload associated with the passage of SB 1036 (Chapter 45, Statutes of 2012).

The resources are an estimate based on the current assessment of workload. Until the Statewide Authority is established and the duties assigned to CalHR are clearly defined, the staff necessary to complete the assigned workload is unknown.

The Budget Act of 2012, authorized the Coordinated Care Initiative (CCI), whereby persons eligible for both Medicare and Medi-Cal would receive medical, behavioral, long-term support and services, and home and community based services coordinated through a single health plan in eight demonstration counties (Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara). It is anticipated that CCI will eventually be expanded to cover IHSS recipients and providers in all 58 counties.

SB 1036 enacted the In-Home Supportive Services Employer-Employee Relations Act (IHSSEERA), which made substantial changes in how the day-to-day labor relations contract administration and collective bargaining will be conducted by IHSS providers. IHSSEERA established a Statewide Authority to function as the employer of IHSS providers for the purposes of labor relations. The IHSSEERA provides that CalHR through the Statewide Authority will assume responsibility for the day-to-day labor relations, contract administration, and collective bargaining with the unions in the eight counties.

The eight demonstration counties were originally scheduled to begin March 2013, however, that date was extended. Currently one county is scheduled to begin the transition in April 2014, and is scheduled to complete the transition by February 2015. Another four counties are scheduled to be under the Statewide Authority by August 2015.

Other challenges facing the Statewide Authority is that by the time the counties transition to CCI, all of their MOUs will be expired with the exception of three. This means that CalHR must commence bargaining in these counties immediately upon transition.

In FY 2013-14, CalHR submitted a Spring Finance letter and received funding for four positions to meet the needs of IHSSEERA. The workload from these positions helped to shape the request for the May Revision proposal.

STAFF COMMENTS

CalHR does not anticipate any future delays with the project. However, workload is still an estimate at this time and it is unknown what if any, additional resources will be needed once the Statewide Authority is established.

The additional resources will ensure that the transition of San Mateo County in February 2015, followed by Riverside, San Bernardino, Los Angeles, and San Diego is seamless.

DOF proposes a technical scheduling change to the In-Home Supportive Services (IHSS) Employer-Employee Relations Act Finance Letter. This is necessary in order to correctly schedule funding between programs 10 (Human Resources Management), 30.10 (Administration), and 30.20 (Distributed Administration). Please note this will not impact the overall appropriation authority being requested by the BCP.

Vote-only Recommendation: Adopt May Revision proposal with technical scheduling changes.

8950 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE 14: CLAIMS CASE MANAGEMENT SYSTEM

The Department of Finance issued a Spring Fiscal Letter on April 1, 2014, that would increase the Department of Veterans Affairs budget by \$84,000 special fund for veteran claims case management system costs.

BACKGROUND

The Department of Finance issued a Spring Fiscal Letter on April 1, 2014, that would increase the Department of Veterans Affairs budget by \$84,000 special funds for veteran claims case management system costs. This increase reflects updated costs for the system.

STAFF COMMENTS

Staff has no concerns with this proposal.

Vote-only Recommendation: Adopt Spring Fiscal Letter

VOTE-ONLY ISSUE 15: MAY REVISION PROPOSAL

The Department of Finance issued a May Revision proposal to adjust the Department of Veterans Affairs budget.

BACKGROUND

The Department of Finance issued a May Revision proposal to the Department of Veterans Affairs Budget that makes two changes to the Department's budget. These proposals are:

- An increase of \$114,000 and 3 positions to convert contracted landscaping functions to civil service positions.
- A decrease of \$16.9 million in budgeted costs to reflect lower census populations at the West Los Angeles, Lancaster, and Ventura homes due to delays in program openings.

STAFF COMMENTS

The reduction in costs, due to lower census counts at the homes was anticipated and discussed at the March 18, 2014, hearing.

Vote-only Recommendation: Adopt May Revision proposal.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

VOTE-ONLY ISSUE 16: MAY REVISION ESTIMATE CHANGES TO CASELOADS

The May Revision updates the major Employee Development Department (EDD) caseloads to reflect the latest data.

BACKGROUND

The May Revision included updated caseload estimates for the three major EDD benefit programs. The Department of Finance has proposed updating the budget figures to reflect the latest caseload specifically:

- Reflects updated Unemployment Insurance benefit payment estimates, resulting in an overall increase of \$235.2 million.
- Decreases Unemployment Insurance loan interest by \$13.1 million to reflect lower levels of unemployment.
- Increases Disability Insurance Benefit by \$1.5 million to reflect increased caseload.
- Decreases School Employee Fund by \$20 million in the budget.

STAFF COMMENTS

These proposed changes update the budget for next year based upon the most recent data.

Vote-only Recommendation: Adopt May Revision Adjustments.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING**VOTE-ONLY ISSUE 17: DEPARTMENT OVERSIGHT**

The last report from the Department of Fair Employment and Housing (DFEH) was issued in 2010. According to statute, the DFEH is required to report its activities on an annual basis.

BACKGROUND

On December 18, 2013, the Senate Office of Oversight and Outcomes (SOOO) issued a report reviewing the DFEH's role in administering the Fair Employment and Housing Act (FEHA), which is considered one of the strongest anti-discrimination laws in the nation. In their report, the SOOO noted that since FY 2007-08 the overall budget for DFEH has decreased by approximately 10 percent less investigators to perform investigative functions for DFEH.

In the report, SOOO noted that budgetary constraints might have played a role in the state's inability to enforce FEHA, which is similar to the conclusion noted in a 2010 study conducted by the RAND Corporation and the UCLA School of Law. Enforcement is a big concern; DFEH receives more than 20,000 new discrimination claims annually. Due to budgetary constraints, DFEH was forced to do more with less. However, as noted by the SOOO, underfunding the agency responsible for the enforcement of the state's anti-discrimination laws diminish DFEH's enforcement capacity and dilutes the effectiveness of the state's anti-discrimination laws.

The report also highlighted other actions by DFEH that raised concerns including a decision to divert resources away from housing investigations which damaged a long-standing relationship with the federal Department of Housing and Urban Development (HUD). For nearly 20 years, DFEH conducted investigations on behalf of HUD, which are reimbursable at \$2,6000 per claim. Concerns raised by HUD regarding the quality of discrimination investigations, coupled with the threat of losing the contract with HUD, compelled DFEH to hire additional investigators for housing claims.

STAFF COMMENTS

According to Government Code Section 12930(k), DFEH is required to submit a written report of its activities and of its recommendations on an annual basis. The most recent report is from 2010. Additional information may be needed to determine whether or not additional resources would address the issues raised in the report conducted by SOOO, and the joint study by the RAND Corporation and the UCLA School of Law.

In order to determine whether additional resources are needed the following information is necessary:

- The number of complaints filed, by each alleged basis of discrimination
- The following information for complainants: race, sex, age, primary language, and zip code of residence
- For employment cases, the annual rate of pay or salary of the position at issue in the following ranges: Less than \$20,000; \$20,000 to \$49,999; \$50,000 to \$74,999; and \$75,000 or higher.
- The date on which the complainant requested a right to sue, if any
- Whether the complaint was drafted by the department before being served on respondent
- Whether the department received an answer to the complaint from respondent
- Whether the case was "graded" by the department before receiving an answer to the complaint from the respondent
- The time between date of complaint and the date of answer. If no answer filed, the time between date of complaint and date of closure
- Whether the complainant was provided with a copy of the respondent's answer before case grading or closure
- Whether the complainant was interviewed in-person by a department investigator
- Whether the complainant was interviewed by telephone by a department investigator.
- Whether the alleged discriminatory individual(s) was interviewed in-person by a department investigator
- Whether all relevant witnesses identified by complainant, respondent, and other witnesses or documents were interviewed by a department investigator.
- Whether corroborating information or documentation was obtained from complainant
- Whether corroborating information or documentation was obtained from respondent.
- Whether an on-site inspection was performed by a department investigator.

During consideration in Senate Subcommittee No. 4, DEFH stated that some of the data requested might not be retrievable in the current database being utilized by the department. Staff, LAO and the department continue to meet to ensure that the SRL will provide enough data to inform the Legislature if the department is being adequately resourced.

Vote-only Recommendation: Adopt Supplemental Reporting Language requiring the DFEH to report the information as outlined above in a sortable spreadsheet format, for both employment and housing cases, reported separately, for a public and private entity respondents since January 1, 2011.

1110/1111 DEPARTMENT OF CONSUMER AFFAIRS**VOTE-ONLY ISSUE 18: SUPPLEMENTAL REPORTING LANGUAGE**

This request is a follow up to Supplemental Reporting Language requested in the 2012-13 Budget Act to require the Department of Consumer Affairs (DCA) to report on those entities that do not accept military education, training, or experience.

BACKGROUND

As follow up to the Supplemental Reporting Language requested in the 2012-13 Budget, DCA submitted a report to the Legislature detailing a list of its boards that have or do not have statutes, rules, regulations or agreements allowing military experience to be used to meet professional licensure requirements and a description of the statutes, rules, regulations, or agreements.

Unfortunately, in many instances the remaining questions were either not answered or information provided was incomplete. We respectfully request that the Department of Consumer Affairs shall prepare a report describing its implementation of Business and Professions Code Section 35.

No later than January 10, 2015, the department shall report to the Subcommittee the following:

- A list of the boards and the date on which they completed their last analysis of compliance with Business and Professions Code 35
- An explanation from those boards that do not accept military education, experience or training pursuant to BPC 35 on why they do not have statutes, rules, regulations or agreements allowing military education, training or experience to be used to meet professional licensure requirements
- A description of the department's actions to direct the boards to implement this code section including any memoranda to boards or other evidence of the department's actions
- A description of how the department has interacted with the Department of Veterans Affairs and the Military Department regarding this issue.

STAFF COMMENTS

This information is vital in understanding how our military education, training and experience are being translated into education, training and experience of state agencies across California. Collecting this information will help address issues affecting our Veterans.

Vote-only Recommendation: Adopt Supplemental Reporting Language as outlined.

ITEMS TO BE HEARD

0840 STATE CONTROLLER'S OFFICE

ISSUE 1: 21ST CENTURY PROJECT – PROJECT INDEPENDENT ASSESSMENT

The May Revision proposes \$2,461,000 (General Fund) and one position to provide one-time funding to complete an independent assessment of the Controller's 21st Century Project.

BACKGROUND

Additional background information on the 21st Century project can be found above in Vote-only Item No. 1.

The scope of the assessment proposed includes:

- Assess the status of the MyCalPAYS SAP system designs
- Determine what is salvageable and what could be leveraged going forward
- Determine an estimated cost to complete the project

The assessment will be conducted through an interagency agreement with the Department of Technology where the Department of Technology will be responsible for selecting an independent contractor to perform this assessment. The selected contractor will work with the SCO's System Software Specialist and utilize existing 21st Century Project artifacts.

Project Costs:

- System Assessment Vendor - \$1,750,000 – Contract to be awarded
 - Department of Technology - \$250,000 – Independent Project Oversight
 - Department of Technology - \$100,000 – Project Management Services
 - SCO System Specialist Position - \$125,000 – work with Department of Technology
 - Data Center Services - \$228,000
 - General expenses, communications, training and information technology - \$8,000
- Total cost: \$2,461,000**

STAFF COMMENTS

In May 2013, the Subcommittee recommended that an independent assessment be conducted of the 21st Century project. Additionally, on April 1, 2014, the Subcommittee requested that the SCO work with the DOF to include an independent assessment by the May Revision. The May Revision proposal is consistent the previous direction of the Assembly Budget Subcommittee.

- The Subcommittee may wish to ask the SCO for a timeline for the assessment.

The assessment included in this proposal is a good first step to understanding what the state received for its \$289 million that can be used when and if the project restarts. Future evaluations should include the following:

- A discussion and evaluation of the state's payroll system? Is the plan envisioned for the 21st Century project even achievable today? Is there an alternative approach to the state's payroll system? Is there a way to streamline the payroll system to make it work?

Staff Recommendation: Adopt May Revision proposal.

7730 FRANCHISE TAX BOARD**ISSUE 2: TAX PROTEST WORKLOAD**

The May Revision proposal includes \$3.6 million (General Fund) and 26 three-year limited term positions in FY 2014-15 to work all administrative resolution processes including docketed and undocketed protest, settlement, and appeal cases.

BACKGROUND

The Franchise Tax Board (FTB) has experienced an increase in protest inventory levels and aging of those inventories for the following reasons:

- An increase in the complexity of the workload extending the average hours spent to close protest cases
- Taxpayers are increasingly raising new issues for the first time during protests
- Legal staff has fewer resources to address existing and increasing protest workloads.

Administrative protests at FTB are classified as either docketed or undocketed. Docketed protests are assigned to attorneys in the Legal Division, who serve as protest hearing officers. Protests not assigned to the Legal Division are assigned to the Audit Division (undocketed protests) are resolved by auditors serving as hearing officers. Generally, protests are docketed when they involve complex or emerging areas of law, sensitive legal issues, or large amounts of tax or other amounts in dispute arising from either proposed audit assessments or claims for refund filed by taxpayers.

The Revenue and Taxation provides the authority for taxpayers to file protests of proposed deficiency assessments. The protest process is intended to be informal. It is the first of several processes that allow taxpayers to dispute proposed adjustments that increase or determine a taxpayer's tax for a particular year. The protest process is not a negotiation process; there is a separate administrative settlement process for that.

Challenges that extend protest completion times include taxpayers filing amended returns or claims for refund raising additional issues during the process to offset proposed assessments, cases being deferred while the parties attempt to negotiate settlement, deferring cases for reasons outside FTB's control, or bankruptcy stays.

As of July 1, 2013, FTB has almost 600 cases in docketed protest status and almost 800 cases in undocketed protest status. Of the 600 docketed protest cases, 283 were over 36 months of age with 153 cases designated as workable.

FTB has taken short term solutions to address the workload. FTB initiated an effort called Aged Protest Closing Project, where it focused on cases over 36 months of age that were designated workable. However, a long-term approach is still needed.

STAFF COMMENTS

FTB was preparing this request for the upcoming year, but due to the serious concerns with the aging of the protests, the sustainability of current efforts to accelerate the closing of the most aged protest cases, and the possible redirection of staff to address concerns, FTB moved the request forward earlier than anticipated.

Staff was briefed earlier in the year on the proposal and has no concerns with the proposal.

Staff Recommendation: Adopt May Revision proposal.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT**ISSUE 3: SMALL BUSINESS DEVELOPMENT CENTERS**

The May Revision proposal increases by \$2 million (General Fund) on a one-time basis as a match to draw down additional federal funds that will be made available to the Small Business Development Center (SBDC) Network.

BACKGROUND

The \$2 million would be administered through a one-time competitive application process where a SBDC would have the opportunity to apply and only the top performing centers would be awarded funds. The awardees would be required to submit quarterly reports, in addition to a final report, on outcomes that were made possible with the award.

California's SBDC provide no-cost consulting and training to California employers and entrepreneurs. Focusing exclusively on the economic vitality of California, SBDCs provide a highly cost-effective, results-driven program, which is verified by third party audits.

According to the 2013 California statistics, which were recently submitted by the California SBDC network to the SBA as part of the reporting requirements of the federal grant:

- SBDC clients created 5,484 new jobs attributed to SBDC assistance
- SBDC clients retained 1,993 jobs that would otherwise have been lost
- SBDC clients secured \$324 million in new capital through loans and venture capital activity as a result of working with the SBDC program
- New (pre-venture) and existing SBDC clients resulted/paid-in an additional \$22.5 million in new tax revenues to the State as a direct result of the assistance received from the SBDC program.

STAFF COMMENT

Assemblymember Bonta and Assemblymember Skinner, Budget Chair, introduced AB 2717 this year, which would provide critical state funds to California's SBDC program in order to facilitate a federal match.

This proposal is consistent with supporting those efforts.

Staff Recommendation: Adopt May Revision.

0855 CALIFORNIA GAMBLING CONTROL COMMISSION**ISSUE 4: INDIAN GAMING REVENUE SHARING TRUST FUND TRANSFER**

The May Revision proposes budget bill language authorizing the redirection of tribal General Fund payments to address the estimated shortfall in the Revenue Sharing Trust Fund.

BACKGROUND

There are 109 federally recognized tribes in California. The Legislature has ratified tribal-state gaming compacts with 72. The compacts require the tribes to make payments to various state accounts under certain conditions. Currently 46 tribes make payments into the following three accounts:

- The Revenue Sharing Trust Fund (RSTF)
- The Special Distribution Fund (SDF)
- The General Fund

Funds in the RSTF are distributed to certain federally recognized Indian tribes. However, there have been annual shortfalls in the RSTF since 2001-02. To address these shortfalls, state law requires that funds be transferred from the SDF to ensure the annual payment.

Due to amendments to tribal-state compacts in 2006, payments that used to be paid to SDF are now directed to the General Fund. This has caused annual shortfalls in the SDF since 2008-09. The SDF balance is expected to be exhausted by 2014-15.

To address the shortfall in the RSTF this year, the Governor's budget assumes SDF will transfer funds to the RSTF. However, due to the lack of funds in the SDF, another solution is needed. This proposal would authorize through budget bill language the redirection of the tribal General Fund payments to the RSTF.

STAFF COMMENTS

Staff has no concerns with this short-term solution for this year. However, next year the Legislature may want to examine how to address this problem in the future. It is likely that this shortfall is going to continue until a solution is proposed.

Staff Recommendation: Adopt budget bill language as proposed in May Revision.

8950 CALIFORNIA DEPARTMENT OF VETERAN AFFAIRS**ISSUE 5: 2014 VETERAN INITIATIVE**

The Subcommittee will consider a proposal for veteran's services for the 2014-15 budget.

BACKGROUND

County Veterans Service Office Staffing. As a result of actions taken by Subcommittee #4, the 2013-14 budget included \$3 million, one-time funding, that was provided to County Veterans Service Offices to help returning veterans file claims for federal disability, pension and education funds, and speed up the process for approving these claims.

The County Veterans Service Offices have just gotten underway with staffing. According to the counties, 74 percent of county offices have or plan to increase staffing levels. The counties calculate that these additional staff would generate as much as \$47 million in annual benefits, based upon historic trends.

West Los Angeles Veterans Home Kitchen. At the March 18, 2014, hearing, the Subcommittee heard testimony that West Los Angeles Veterans home would not be able to utilize many of its beds because the facility did not include a kitchen. Currently, work is underway to remedy this problem, with an anticipated project completion date of March 2016. The Subcommittee asked the Department to explore whether the kitchen project could be expedited, so that more veterans could be served by the facility.

According to the Department, the West LA Home kitchen completion schedule could be accelerated by approximately six months at a cost of \$770,000, thus opening the kitchen in September 2015. The additional proposed funding may come from the remaining lease revenue bond authority for the project; however, DOF is still reviewing overall cost and scope for this project, in addition to how this additional funding proposal fits within the existing lease revenue bond authority.

STAFF COMMENTS

The Subcommittee could consider continuing the \$3 million in County Veteran Service Organization funding and appropriating \$770,000 Lease Revenue bond funding to expedite the kitchen.

When combined with the \$2 million of veterans-oriented items in the Department of the Military budget, this package would provide \$5.7 million in additional services for veterans next year.

- **Staff Recommendation: Appropriate \$3 million General Fund, ongoing for County Veterans Service Organizations**
- **Appropriate \$770,000 lease revenue bond funds to accelerate the West Los Angeles kitchen project**

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**ISSUE 6: UNEMPLOYMENT BENEFIT ISSUANCE**

The May Revision includes additional funding to administer the Unemployment Insurance (UI) program, including outcome goals.

BACKGROUND

The May Revision proposes an increase of \$67.6 million, including \$46.6 million General Fund, to provide additional resources for the administration of the UI Program in 2014-15.

The Governor's Budget proposed a \$64 million package of efficiencies and supplemental funding, but the UI Program continued to receive a greater demand for services than anticipated. In February 2014, the Secretary for Labor and Workforce Development outlined a plan for additional resources in the current year to take immediate action to improve customer service. While UI service levels have significantly improved as a result of those efforts, additional resources are needed in 2014-15 to sustain that level of service and provide timely unemployment benefits.

The May Revision proposes additional staff and overtime funding to support the following service levels:

- Process all claims for unemployment benefits within three days of receipt.
- Respond to online inquiries within five days of receipt.
- Schedule 95 percent of eligibility determinations in a timely manner.
- Respond to 50,000 calls per week.

To achieve the service level goals identified in the May Revision proposal, the Employment Development Department (EDD) would need to maintain the 598.1 positions above the base level, add 175.2 positions to achieve the goals for determinations and calls, and could reduce 18.6 PEs from initial claim and online inquiry workload. This results in a SFY 2014-15 position need of 754.7 above what was included in the Governor's Budget.

STAFF COMMENTS

The Subcommittee discussed Unemployment Insurance at its March 11, 2014, hearing on EDD. At that time, the Subcommittee requested outcome goals, so the effectiveness of the improvement to UI could be discussed. This May Revision responds to the feedback from the Subcommittee by including specific and ambitious outcome goals.

In 2014, EDD has made dramatic improvements to its performance levels. These include:

- Reduced the average wait time to speak to an agent by more than 50 percent at the call centers, now under three minutes.
- Reduced the number of initial claims in the online application inventory that were over 5-days old to 2.8 percent of the total, as recently as January 2014 almost half the claims were older the five days.
- Reduced the average weekly number of appointments scheduled beyond what would be considered timely from roughly 25,000 during November 2013 through February 2014 to roughly 8,800 for the month of March 2014.
- Reduced the untimely determination appointments by 50 percent, from two weeks to one week.

While these improvements are impressive, the underlying level of service still fails to achieve acceptable levels, which has prompted this request for additional resources.

Given the substantial investment proposed by EDD, the Subcommittee may wish to consider adopting reporting language so that it can determine how effective EDD has been in achieving the desired service levels. One mechanism to achieve this goal would be to specify in provisional budget bill language that the department report on its progress on meeting the outcome goals it has set with this proposal. A formal report, due March 1, 2015, will provide an update that can be used for continued oversight and discussion of this issue in next year's budget process.

Staff Recommendation: Adopt May Revision Proposal with additional Budget Bill language a March 1, 2015 report on the progress in achieving service level outcomes.

ISSUE 7: PAID FAMILY LEAVE OUTREACH

The Subcommittee will consider strategies to increase utilization of the State's Paid Family Leave program.

BACKGROUND

In 2002, legislation was enacted to extend disability compensation to cover individuals who take time off work to care for a seriously ill child, spouse, parent, or registered domestic partner, or to bond with a new child. SB 1661 established the Paid Family Leave insurance program, also known as Family Temporary Disability Insurance program, to be administered by the State Disability Insurance (SDI) program. An estimated 13.1 million California workers who are covered by the SDI program have also been covered for Paid Family Leave insurance benefits as of July 1, 2004.

For California workers covered by SDI, Paid Family Leave (PFL) insurance provides up to six weeks of benefits for individuals who must take time off to care for a seriously ill child, spouse, parent, or registered domestic partner, or to bond with a new child. The fund is projected to have a \$2.8 billion balance in 2013, which is expected to grow to \$3.1 billion this year.

Benefits of Paid Family Leave

A 2011 study of California's Paid Family Leave program by Eileen Appelbaum and Ruth Milkman found that the increased use of Paid Family leave increased job retention, positively affected respondents' ability to care for a new baby or adopted child and doubled the median duration of breastfeeding for all new mothers who used it.

Awareness

Polling suggests many workers are unaware of the benefits they can receive from Paid Family leave. In September 2011, a California Field Poll surveyed registered voters to assess their awareness of the State's Paid Family Leave (PFL) program. The poll included 1,001 registered voters and was conducted from September 1 to 12, 2011.

Overall, well under half (42.7 percent) of respondents had "seen, read or heard" of the PFL program, which was created by a 2002 law. Awareness also varied geographically, with the highest level in the San Francisco Bay Area and the lowest in Los Angeles County. Awareness among low-income groups, Latinos, and young workers was substantially lower than other average.

STAFF COMMENTS

The Subcommittee previously heard this issue at its April 8, 2014, hearing. The Subcommittee requested advocates prepare a concrete outreach proposal. In response, the advocates have proposed the following outreach plan:

Advocates have suggested a three-year approach to funding outreach activities with State Disability Account funding, with the first year dedicated to ramping up and developing materials and funding an evaluation in the third year. The proposed program would have the following funding levels:

- 2014-15 \$1 million
- 2015-16 \$2.5 million
- 2016-17 \$3 million

Advocates have requested that in addition to funding for outreach, reporting language be adopted to require EDD to report back on outreach activities. This reporting can be achieved through the adoption of Supplemental Reporting Language to allow a one-time report of activities associated with existing and new funds provided for outreach.

STAFF RECOMMENDATION: Approve \$1 million from the State Disability Account Fund for Paid Family Leave Outreach activities and require Supplemental Report Language for EDD to report on Paid Family Leave outreach activities.
