

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

Assemblymember George Nakano, Chair

TUESDAY, APRIL 23, 2002
 STATE CAPITOL, ROOM 447
 1:30 P.M.

CONSENT CALENDAR

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2100	DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
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8500	BOARD OF CHIROPRACTIC EXAMINERS
8530	BOARD OF PILOT COMMISSIONERS
8800	MEMBERSHIP IN INTERSTATE ORGANIZATIONS
8550	CALIFORNIA HORSE RACING BOARD
8640	POLITICAL REFORM ACT OF 1974
8620	FAIR POLITICAL PRACTICES COMMISSION
0890	SECRETARY OF STATE

VOTE ONLY

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VOTE ONLY**ITEM 0690 OFFICE OF EMERGENCY SERVICES**

ISSUE 1: CITY OF MILBRAE**BACKGROUND:**

The city of Millbrae suffered a landslide on private land. As a result, 300 feet of sewer line was damaged. In March 2000, the Office of Emergency Services agreed to provide funding for 75 percent of the \$8.6 million repair cost. The city entered into a loan agreement for the remaining 25 percent match. This amounted to an obligation of \$2.2 million. Under the terms of the loan, the interest would be deferred for three years and the accrued amount would be paid in annual installments in years four through ten. These payments will be approximately \$450,000 annually which represents 3.5 percent of the city's budget and exceeds the city's current capital outlay budget of approximately \$280,000 a year. In order to meet the fiscal requirement of the loan, the city will have to increase the capital outlay budget by 60 percent by redirecting funds from other purposes.

The city is requesting forgiveness of the \$2.2 million loan.

COMMENTS:

This item was discussed in the budget hearing on April 9, 2002. This item is up for vote only.

ITEMS TO BE HEARD

ITEM 8320 PUBLIC EMPLOYMENT RELATIONS BOARD

The objectives of the Public Employment Relations Board (PERB) are to administer and enforce California public sector collective bargaining laws in an expert, fair and consistent manner; to thereby promote service to the public through improved public sector employee-employer relations; and to provide a timely and cost-effective method through which employers, employee organizations and employees can resolve their labor relations disputes.

ISSUE 1: GENERAL COUNSEL POSITION

(Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$4,701	\$122	\$4,823

BACKGROUND AND COMMENTS:

In prior years, PERB absorbed increases in operating costs by using salary savings achieved through vacant board positions and a vacant General Counsel position. The Board expects that as they fill the vacancies and expect an appointment of a fourth Legal Advisor, these salary savings will not be sufficient to maintain their current level of operation.

The Governor's budget includes a General Fund augmentation of \$122,000 a General Counsel position and for the support of PERB's current level of operation.

ITEM 0855 CALIFORNIA GAMBLING CONTROL COMMISSION

ISSUE 1: PROCESSING OF TRIBAL APPLICATIONS**BACKGROUND:**

The California Gambling Control Commission was established pursuant to Chapter 867, Statutes of 1997 (Lockyer). The purpose of the Commission is to enforce gambling regulations. The passage of Proposition 1A in 2000 increased the responsibility of the Commission to include gaming on Indian land.

The Legislative Analyst's Office indicates at the time of its analysis that no applications for Indian gaming licenses had been received by the Commission from the Department of Justice making some of the applications over one year old. LAO recommends the Legislature enact legislation setting a limit of 180 days for background investigations for tribal employees similar to existing law for card rooms.

COMMENTS:

Subsequent communications with the Commission indicates that they have now received 60 applications and anticipate receipt of up to an additional 850 applications from the Department of Justice which have been submitted to that department. The Commission estimates that up to 10,000 tribal gaming applications may be ultimately submitted.

Due to the dramatic increase in applications being processed by the Department of Justice, the subcommittee may want to revisit this issue during the May Revision to ask the Department of Justice and the Commission on the status of applicant processing to determine the need for language requiring all background applications to be completed within 180 days.

ISSUE 2: FUND BALANCE: GAMBLING CONTROL FUND (FOR DISCUSSION ONLY)

(MILLIONS)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
1.481	.536	2.017

BACKGROUND:

The Gambling Control Fund support operations of the Gambling Control Division within the Department of Justice and the California Gambling Control Commission. In the budget year the Governor's Budget proposes expenditures from the fund of \$7.2 million. This plan will leave an estimated \$24,000 fund balance at the end of the year. This is .3 percent of the proposed expenditures. Funding for the Gambling Control Fund comes from licenses permits and fees related to the operations of cardrooms in the State.

COMMENTS:

According to the Commission the number of cardrooms have been declining from 535 seven years ago to approximately 112 now. At this time it is not clear how the cardroom industry will continue to compete with other forms of gaming available in the State including that of Indian casinos. Therefore it is not clear how stable the revenue to this fund will be in the future.

The subcommittee may want to ask the Commission to comment on the stability of revenues to the fund.

ISSUE 3: FUND BALANCE: INDIAN GAMING SPECIAL DISTRIBUTION FUND (FOR DISCUSSION ONLY)

(THOUSANDS)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$11,000	\$1,763	\$12,763

BACKGROUND:

The Indian Gaming Special Distribution Fund represents the State share of Indian gaming revenue. The fund can be used for: 1) grants and administrative costs associated with implementing anti gambling addition programs; 2) grants and administration to support state and local agencies impacted by tribal gaming; 3) funding to the California Gambling Commission and the Department of Justice for costs associated with the implementation of State-Tribal Gaming Compacts; 4) funding to cover shortfalls to the Revenue Sharing Trust Fund which distributes funds to non-gaming tribes; and 5) other purposes specified by the Legislature.

Funding for the Indian Gaming Special Distribution Fund is based upon the number of gaming devices in operation by the tribes on September 1, 1999. Fees range from zero to thirteen percent of the average net winnings from those devices.

COMMENTS:

Funding to support the operations of the Commission and the Department of Justice is supported in 2001-02 through \$11 million in General Fund loans. The Governor's Budget proposes the repayment of these loans In the Budget Year.

Fees from the tribes are remitted quarterly in arrears and are anticipated to begin in the first quarter of the budget year. No funds are anticipated in the current year and the fund is estimated to end the year with \$20,000. According to the Commission, no agreements have yet been reached between the State and the tribes regarding the payment process to this fund. Further, the tribes are allowed to delay payment to the State by up to two quarters without jeopardizing its authority to operate gaming. Such a delay could affect revenues to this fund (estimate at \$38 million) in the budget year and its ability to repay the \$11 million General Fund loan or support the operations of the Commission and the Department of Justice.

The subcommittee may want to hear from the Administration regarding progress made on agreements related to the status of the State – Tribal agreements to make contributions to the Indian Gaming Special Distribution Fund. In addition, the Administration may want to provide testimony regarding the probability of the amount and the timing of the contributions.

ITEM 0954 SCHOLARSHARE INVESTMENT BOARD

(Millions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$120.2	\$10.0	\$130.2

The Golden State Scholarshare Trust Program, is a state-sponsored, college savings program that gives Californians the opportunity to invest on a tax-advantaged basis to meet the costs of higher education, as allowed by federal law. Participants may invest for their children's college costs over a number of years. Under recent federal tax legislation, earnings on invested funds are federally tax exempt. Administrative costs for the program are paid from a portion of the investment returns.

The board also maintains the scholarship investment accounts for the Governor's Scholars Program, established by SB 1688 (Polanco), Chapter 404, Statutes of 2000. This program awards \$1,000 scholarships to each public high school student who demonstrates high academic achievement on the STAR test. The Governor's Distinguished Mathematics and Science Scholars Program awards \$2,500 scholarships to students who win a Governor's Scholars Award and also demonstrate high achievement in math and science by achieving specified scores on Advanced Placement, Golden State, or International Baccalaureate examinations.

Proposed Spending Increase. The budget proposes \$129.3 million from the General Fund for the Governor's Scholarship Programs in 2002-03, and increase of \$10 million (8.4 percent) from estimated current-year spending. The increase reflects an expected increase in students eligible for both the Governor's Scholars Program and the Governor's Distinguished Mathematics and Science Scholars Program. Administrative costs for the Scholarshare savings program, which are funded by fees, remain flat at \$1 million.

Tax Conformity for Scholarshare Savings. The Governor's tax proposals include providing a state income tax exemption for earnings in Scholarshare savings accounts in conformity with a recent federal tax law change. Currently, earnings are taxable to the student beneficiary. The estimated annual General Fund revenue loss from this change is \$1 million. Pending tax conformity pending tax conformity legislation contains this provision.

ITEM 0954 SCHOLARSHARE INVESTMENT BOARD

ISSUE 1: GOVERNOR'S DISTINGUISHED MATH AND SCIENCE SCHOLARS PROGRAM
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(THOUSANDS)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$6,000	\$8,000	\$14,000

LAO Recommends Elimination of Program

LAO recommends elimination of this program for a General Fund savings of \$14 million. LAO questions whether the program's effectiveness in achieving its stated intent--encouraging high school students to pursue rigorous course work leading to careers in scientific fields.

LAO argues that the likeliest scholarship recipients already are highly motivated and represent approximately the top seven-tenths of 1 percent of the state's high school students. These students generally receive other scholarships from public and private sources based upon their achievement. The \$2,500 scholarships under this program—targeted to students who already are bound to the best universities and in line for other scholarships—are a low pay-off investment of General Fund monies, according to LAO.

BACKGROUND:

Chapter 404, Statutes of 2000 (SB 1688, Polanco), established the Governor's Distinguished Mathematics and Science Scholars Program to provide \$2,500 scholarships to approximately 2,400 students achieving high scores on advance placement (AP) tests in calculus, biology, chemistry, or physics. Specifically, a student must (1) score a 5 on the "calculus AB" test or a 4 or 5 on the "calculus BC" test, and (2) score a 5 on either the biology, chemistry or physics test in order to be eligible for the scholarship. Chapter 734, Statutes of 2001 (AB 804, Committee on Education), expanded eligibility for the program to students (1) who took AP tests prior to January 1, 2000 and otherwise met test score criteria, and (2) achieving at equivalent levels on an International Baccalaureate test.

COMMENTS:

Incentives to Take AP Courses and Excel on AP Tests. According to LAO, students who receive high scores on both an AP calculus test and an AP science test generally receive college credit. The college credits can accelerate a college student's graduation date, which can result in significant savings to the student in the cost of higher education. In addition, colleges generally consider student performance in AP courses and on their AP exams when making admission decisions.

ITEM 0954 SCHOLARSHARE INVESTMENT BOARD

ISSUE 2: ONE-TIME SUSPENSION OF MERIT SCHOLARSHIPS
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(Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$110,000	\$2,000	\$112,000

LAO Option. LAO points out that a General Fund savings of \$112 million could be achieved by suspending the basic Governor's Merit Scholarship Program for one year.

COMMENTS:

The suspension would mean that the current group of ninth-through-eleventh graders would have two opportunities, rather than three, to earn these scholarships.

ITEM 8660 PUBLIC UTILITIES COMMISSION

(Millions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$1,643	-\$330	\$1,313

The Public Utilities Commission (PUC) regulates investor-owned utilities, including gas, electricity, telephone, water, and railroads, and certain passenger and household goods carriers to ensure the delivery of stable, safe, and economic services. The commission has traditionally met this responsibility through enforcement of safety regulations, controlling industry rates for services, and promoting energy and resource conservation.

The budget proposes total funding of \$1.3 billion entirely from special funds for the PUC in 2002-03, a decrease of \$329 million (20 percent). Proposed staffing declines slightly (2.7 percent), to 921.9 personnel-years in 2002-03. The large funding decline is due primarily to the deletion of one-time General Fund support for energy programs (\$151.3 million) and projected spending changes in the Universal Service Telephone Programs, which account for \$1.1 billion of the spending budgeted in the PUC.

ITEM 8660 PUBLIC UTILITIES COMMISSION**ISSUE 1: PUBLIC PAYPHONE PROGRAM**

(Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$1,847	-\$682	\$1,165

The LAO recommends (1) approval of 13 limited-term positions requested in the budget for administration of the to adoption of the public payphone programs. The LAO also recommends adoption of Supplemental Report Language directing the PUC to provide information that justifies its staffing needs for the public payphone programs and provides information on the operations of the programs. The report would be due by December 1, 2003.

BACKGROUND:

The CPUC administers three public payphone programs that are funded through customer phone bills. These programs include: (1) the Public Policy Payphone Program, which places public pay phones in areas that would otherwise not be served; (2) the Payphone Service Providers Enforcement Program, that ensures payphones are in acceptable working order and charging approved rates; and (3) the Telecommunications Devices for the Deaf Interim Placement Committee, which ensures that the hearing impaired have access to communications devices in public places. All three of these programs will be administered by the CPUC's Consumer Services Division under the guidance of the Payphone Service Provider Committee, which is an advisory board created by Chapter 677, Statutes of 1999 (SB 669, Polanco). SB 669 revised the universal service telephone programs and brought them under state administrative and fiscal control. Prior to this program being under the control and direction of the CPUC, 15 non-civil-service positions were involved in administering these programs.

COMMENTS:

Staff understands that PUC is in agreement on the reporting language.

ITEM 8660 PUBLIC UTILITIES COMMISSION**ISSUE 2: CLEAN ENERGY GREEN TEAM**

The LAO recommends deleting one staff attorney position at the PUC budgeted for " Clean Energy Green Team" activities for a savings of \$100,000 to the PUC Utilities Reimbursement Account.

BACKGROUND:

Chapter 329, Statutes of 2000 (AB 970, Ducheny), created the Clean Energy Green Team to facilitate the development and permitting of new electricity generation capacity in the state. The Green Team provides potential power plant developers with information regarding siting a power plant in California. It was also charged with providing assistance to developers in obtaining essential "inputs" (natural gas, water, and air emission offsets), as well as assistance in working with local governments in obtaining local permits and ensuring their approvals. The Green Team also was charged with recommending incentive financing programs for renewable and distributed energy resources. The Green Team sunsets January 1, 2004.

COMMENTS:

- LAO notes that the Green Team has not been actively engaged in new activities, and the number of siting applications for new power plants has declined. LAO argues that additional resources to assist potential developers in developing proposals to build new power plant--beyond those already provided by the Energy Commission and other agencies--are not needed.
- Subcommittee 3 adopted the LAO's recommendation to delete the remaining Green Team position at the State Water Resources Control Board on the same basis.

ITEM 8660 PUBLIC UTILITIES COMMISSION**ISSUE 3: OFFICE OF RATEPAYER ADVOCATES (ORA)**

(Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$14,301	-\$424	\$13,877

Chapter 856, Statutes of 1996 (SB 960, Leonard) established the ORA, as an independent consumer advocate within the PUC. The Governor appoints the head of ORA directly, subject to Senate confirmation. ORA participates as an independent party in proceedings before the PUC and other state and federal agencies with the goal of obtaining the lowest possible rates for service consistent with reliable and safe service levels. Authorization for the ORA originally was scheduled to sunset on January 1, 2002. Chapter 440, Statutes of 2001 (SB 201, Speier) deleted the sunset.

COMMENTS:

Separate Funding Required. Existing law requires ORA to be funded through a separate Budget Act appropriation from the PUC Ratepayer Advocate Account and a transfer to the Ratepayer Advocate Account from the PUC Utilities Reimbursement Account. The 2002-03 Budget Bill does not contain either the appropriation or the transfer. Instead, ORA funding is included in the PUC's overall appropriations.

- DOF and the PUC should address how this requirement will be met.

Annual Staffing Report. Existing law requires the PUC to provide the Legislature with an annual staffing report for ORA covering a 5-year period.

- The PUC should provide a current staffing summary for ORA and a date for the annual report.

Mission and Accomplishments. ORA is only one of the organizations providing ratepayer representation before the PUC. The duties of the PUC's commissioners and regular staff also include protecting ratepayer interests. Furthermore, private ratepayer advocacy organizations, such as TURN, often take part in commission proceedings and receive funding from the commission.

- ORA should explain its role and how it differs from the regular PUC staff and outside parties that advocate for ratepayers.

Spending and Staffing Growth. Compared with 1998-99, ORA's proposed spending in 2002-03 represents an annual growth rate of about 8 percent, and staffing has grown by about 19 percent.

- ORA should explain how the growth in spending and staff has been used and will be used in the future.

ITEM 8660 PUBLIC UTILITIES COMMISSION**ISSUE 4: DECISION DELAYS****BACKGROUND:**

Under current law the CPUC is required to take final action on most matters in which a proposed decision has been issued within 60 days of the issuance of the proposed decision. However, the commission can postpone decisions for a "reasonable time" under "extraordinary circumstances." There are no statutory deadlines for non-adjudicatory matters. Some issues have been unresolved for years. Assemblymember Canciamilla has introduced legislation to tighten up the Commission time lines.

COMMENTS:

Without additional information it is difficult to determine how efficiently the CPUC is moving matters through its process and if extended delays in the decision making process are a chronic problem. Information on the total volume of matters before the CPUC and the time to complete proceedings would be helpful to both the Budget Committee and to policy committees.

The subcommittee may wish to ask the PUC to report on the following:

1. Each adjudicatory, ratemaking, or quasi-legislative matter or proceeding that has been opened or is ongoing over the past two years.
2. Information on when each matter (or ruling, if there were multiple rulings) was opened, when each procedural step in the process was completed (including scoping memos, hearings, submitted for decision and issuance of a proposed decision), when and if the matter was placed on a Commission agenda, and when a final decision was approved.
3. The PUC should update the subcommittee on the status of its various caseloads and its ability to, and performance in, making timely decisions.
4. The PUC should tell the subcommittee when it could provide the requested information described above.

ITEM 8665 CALIFORNIA CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

(Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$4,502	\$996	\$5,498

Senate Bill 6X (Burton)--Chapter 10, Statutes of 2001, First Extraordinary Session—created the California Consumer Power and Conservation Financing Authority. The purposes of the authority include augmenting electric generating facilities and to ensure a sufficient and reliable supply of electricity; providing financing incentives for investment in cost-effective energy-efficient appliances and energy demand reduction, to increase power reserves; financing for the retrofit of inefficient electric powerplants, renewable energy and conservation; and, where appropriate, developing strategies for the authority to facilitate a dependable supply of natural gas at reasonable prices to the public.. The budget indicates that authority staffing will increase from 14.4 personnel-years in the current year to 32.3 personnel-years in 2002-03.

ISSUE 1: REPAYMENT PLAN FOR GENERAL FUND LOAN

The CPA was provided a \$10 million General Fund loan to be allocated upon notification of the Legislature in the *2001-02 Budget Act*. To date, \$4.5 million has been allocated to the CPA for current-year expenditures. The budget proposes to allocate the remaining balance, \$5.5 million, in the budget year.

The LAO has withheld recommendation on the CPA's budget request pending receipt and analysis of a loan repayment plan, and identification of specific projects and financing arrangements supporting its financial plan.

COMMENTS:

New Budget Work Plan Just Presented. On April 19th, the CPA put forward a revised budget plan to implement the Energy Resource Investment Plan (ERIP) that the CPA provided to the Legislature in February, as required by SB 6X. *However*, the Department of Finance indicates that the CPA's plan does not necessarily represent the administration's position.

Plan Foresees Loan Repayment Beginning in 2002-03. The plan projects issuance of \$2.5 billion of revenue bonds in 2002-03, producing fees of \$12.5 million for the CPA, which the CPA indicates would allow it to begin repayment of the General Fund loan of \$10 million.

Plan Focuses on Three "Gaps." The workplan and the ERIP attempt to address financing and brokering opportunities in three areas:

1. Clean energy financing.
2. Strategic electricity reserves.
3. Incentives for "greening" public buildings.

Most Projects Remain Conceptual and/or Speculative. The CPA has identified a specific project to finance a peaker plant at San Francisco International Airport, which will improve system reliability in the Bay Area. The CPA also indicates that it has made significant progress in organizing a Demand Reserves Program that could provide dispatchable load reduction for system reliability at reduced cost to DWR, compared with purchasing peak power. Other programs and projects appear more uncertain and are still in a conceptual stage.

The CPA should describe its program and financial plans for the subcommittee and address the following questions:

1. How much funding is needed to carry out projects that currently have specific clients and financing sources?
2. Are other sources of funds available, including advances from potential project beneficiaries?

The Department of Finance should explain the status of the administration's evaluation of the CPA's plan.

The LAO should provide the subcommittee with any preliminary comments that it has on the CPA's plans.

ITEM 8770 ELECTRICITY OVERSIGHT BOARD

(Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$4,481	-\$261	\$4,220

The Electricity Oversight Board (EOB) was created by Chapter 854, Statutes of 1996 (AB 1890, Brulte), which deregulated California's wholesale electricity industry. The board was created to oversee the California Independent System Operator (ISO), which manages the transmission grid serving most of California, and the now-defunct Power Exchange (PX), which for a time was the marketplace in which all electricity in the state was bought and sold.

The budget includes \$4.2 million (\$730,000 General Fund) for the board's activities in the budget year, which is roughly \$261,000 less than the estimated current-year expenditures. The decline in 2002-03 is due to the use of one-time funds in 2001-02 to reduce or remove market constraints on the state's electrical transmission and distribution system. Proposed 2002-03 funding would support 25.9 personnel-years of staff.

ISSUE 1: POWERPLANT MONITORING AND ENFORCEMENT

The budget proposes \$730,000 from the General Fund for a new program of establishing power plant monitoring and enforcement protocols. However, pending legislation (SB 39 X2, Burton) which would establish this program assigns this responsibility to the PUC. Accordingly the LAO recommends deletion of these funds in the EOB budget.

COMMENTS:

The EOB concurs with this deletion.

ITEM 8770 ELECTRICITY OVERSIGHT BOARD

ISSUE 2: EOB RESPONSIBILITIES AND WORKPLAN

Board Has Not Met In a Year. It has been a year since the EOB's board last met. Originally, one of the main tasks of the EOB board was to appoint the board of the Independent System Operator (ISO). However, AB 5X shifted that appointing power to the Governor. Since then, the EOB has operated as a staff organization working more or less under the direction of the Governor's Office.

Major Role Change. The change in ISO governance has reduced the need for EOB oversight of ISO (although that may change if the Federal Energy Regulatory Commission –FERC—disapproves state appointment of the ISO board, as is anticipated). Furthermore, the PX no longer operates, and power purchasing has been taken over by the Department of Water Resources (DWR). Consequently, the role of the EOB has changed substantially. According to the EOB, a significant portion of its current workload is related to regulatory proceedings and litigation resulting from last year's energy crisis. EOB staff are involved in efforts to obtain refunds for California power purchases at high prices last year and protecting the state's interests in the unwinding of the PX. The EOB staff also is involved in monitoring bilateral markets, presumably including DWR's power purchasing contracts.

The EOB has recently provided committee staff with the following staffing amounts and allocations for 2002-03:

Proposed EOB Staffing 2002-03

	Director	Admin	Analytical	Legal	Totals
Market Monitoring	0.3	0.5	4.4	1.0	6.1
Operations	0.3	0.6	3.0	0.2	4.1
Grid Planning	0.0	0.0	0.4	0.0	0.5
Regional	0.1	0.0	0.4	0.5	1.0
FERC-related	0.1	0.0	1.0	3.7	4.7
Administrative	<u>1.2</u>	<u>5.5</u>	<u>2.3</u>	<u>3.7</u>	<u>12.7</u>
Totals	2.0	6.5	11.5	9.0	29.0

COMMENTS:

EOB—please address the following:

- Current workload and anticipated workload and use of staff in 2002-03.
- Who does EOB report to and who gives its staff instructions?
- What should EOB's ongoing role be, if any?

LAO—please provide any comments that you have regarding the EOB's workplan and the issues outlined above.

ITEM 8770 ELECTRICITY OVERSIGHT BOARD**ISSUE 3: FERC REPRESENTATION****BACKGROUND:**

As discussed in Issue 2 above, the EOB represents the state in a number of major FERC proceedings. In some proceedings, EOB has the lead in representing the state, and in others it plays a supporting role. The PUC, DWR, the Attorney General, ISO, and the utilities also are parties that appear before FERC on behalf of the state and the state's ratepayers.

The EOB reports that a 1998 memorandum of understanding with the PUC regarding the division of FERC representation responsibilities is no longer in force.

COMMENTS:

- The Department of Finance has been requested to provide a listing of all of the state's FERC representation activities.
- Subcommittee 3 has deferred action on \$750,000 (special fund) requested by DWR for FERC representation pending an analysis of the state's various FERC representation activities.
- Coordination of the state's FERC representation appears to rely on informal mechanisms. This raises the following concerns:
 - Efforts may overlap and duplicate each other.
 - The state may speak with multiple voices, harming our effectiveness.
 - Representation may not always make use of the best expertise available to the state.

ITEM 8885 COMMISSION ON STATE MANDATES

(Thousands)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$1,698	-\$120	\$1,578

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission consists of the Director of Finance, the Controller, the Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county or city and county supervisor, or school district governing board member, appointed by the Governor and approved by the Senate. With few exceptions, the cost for reimbursement of state-mandated local programs ultimately is borne by the General Fund, either directly or from the State Mandates Claims Fund, which is replenished by the General Fund. Actual payments for mandated costs are budgeted within the budgets of the individual departments that have program responsibility for each mandate.

ISSUE 1: PEACE OFFICER BILL OF RIGHTS (POBOR)

The LAO has recommended that the Legislature delete \$50.0 million proposed to reimburse local governments and refer the matter to the Joint Legislative Audit Committee. The Governor's proposed budget included the \$50.0 million to reimburse local governments for the POBR mandate in the budget year.

BACKGROUND:

The Legislature enacted the POBOR in 1976 as a means of ensuring stable employer-employee relations and effective law enforcement services. This legislation provides a series of rights and procedural protections to peace officers who are subject to interrogation or discipline by their employer.

Due to a claim the City of Sacramento filed in 1995, the Commission on State Mandates adopted a "Statement of Decision" in 1999. The "Decision" found POBOR to be a mandate that required certain procedural requirements of POBOR that exceeded the rights provided all public employees under the due process clause of the United States and California Constitutions. Local agencies soon began preparing mandate claims to send to the State Controller's Office. In March 2001, based on the claims submitted to the Controller at that time, the commission adopted a statewide cost estimate, projecting the annual costs of the POBOR mandate to be \$26.5 million and prior-year costs to be \$126 million.

The LAO argues that a greater number of local governments are submitting reimbursement claims than was anticipated by the commission in its statewide cost estimate. The LAO estimates that annual cost associated with this mandate is likely to be two to three times higher than the amount projected by the commission (\$50 to \$75 million annually).

COMMENTS:

The Department of Finance should respond to the LAO's projection that the cost of the POBOR mandate will be much higher than estimated by the commission.

ITEM 9100 TAX RELIEF

(Billions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$3.1	\$0.3	\$4.4

The state provides tax relief--both as subventions to local governments and as direct payments to eligible taxpayers--through a number of programs contained within this budget item. The budget proposes total relief of \$4.4 billion (all General Fund), of which almost \$700 million is appropriated in the budget bill. The Tax Relief Program excludes tax expenditures, which reduce tax liabilities, rather than provide state payments.

VLF Backfill. The largest program contained in the tax relief budget item pays for the costs of reimbursing local governments for reductions in the annual vehicle license fee (VLF) levied on vehicles registered in California. Most VLF revenue is distributed to cities and counties. Since 1998, the Legislature has reduced the VLF by 67.5 percent. Cities and counties continue are held harmless from the VLF reductions by the state "VLF backfill"—a continuously appropriated General Fund expenditure that replaces their lost revenue. The budget estimates expenditures of nearly \$3.8 billion for the VLF backfill in 2002-03, compared with \$3.6 billion in the current year (\$1.2 billion of which was funded in the prior-year budget).

Homeowners' Exemption. The largest program appropriated in the budget bill is the homeowners' exemption. This appropriation, required by the State Constitution, replaces property tax revenue lost due to the \$7,000 exemption on the assessed value of owner-occupied dwellings. The exemption reduces the typical homeowner's taxes by about \$75 annually. The Governor's budget proposes an expenditure of \$410 million on this program in 2002-03 --an increase of \$6 million, or 1.5 percent.

Senior Citizens' Property Tax and Renters' Tax Assistance. This program, administered by the Franchise Tax Board, provides payments to qualifying low-income seniors and disabled persons. The budget includes \$233.9 million for these payments in 2002-03, an increase of \$18.3 million compared with estimated expenditures in 2001-02.

ITEM 9100 TAX RELIEF

ISSUE 1: LAO OPTION—REDUCE SENIOR HOMEOWNERS' AND RENTERS' ASSISTANCE

The LAO has identified an option to reduce General Fund spending by up to \$75 million in this program.

BACKGROUND:

As part of the 2001-02 budget agreement, benefits for the Senior Citizens' Property Tax and Renters' Assistance programs were permanently increased by 45 percent over their 1999-00 baseline level, at a cost of roughly \$75 million annually. These benefits could be reduced temporarily—to any level between the prior baseline amount and the new scheduled amount for a one-time savings of up to \$75 million.

COMMENTS:

LAO please describe the option and how it would change payments to low-income seniors and disabled persons.

ITEM 9210 LOCAL GOVERNMENT FINANCING

(Millions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$401.2	-\$16.4	\$384.8

This program provides a wide variety of subventions to local governments. It includes public safety funding for the COPS and juvenile justice programs, as well as smaller subventions for booking fees, and to redevelopment agencies. The proposed spending reduction reflects one-time funding for local projects.

ISSUE 1: COPS/ JUVENILE JUSTICE GRANTS

(Millions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$232.6	--	\$232.6

BACKGROUND:

Chapter 353, Statutes of 2000, (AB 1913, Cardenas) enacted the Schiff-Cardenas Crime Prevention Act of 2000. Under the Act, funding is evenly shared between the existing Citizens' Option for Public Safety (COPS) program and the newly created local juvenile justice grant program. The COPS program funds are allocated between the local police departments (39.7 percent of the entire grant), sheriff departments (5.15.percent) and district attorney's offices (5.15. percent). The remaining 50 percent of the grant is allocated to counties to develop and implement strategies that provide a continuum of responses to juvenile crime and delinquency. The Budget Act of 2000 appropriated \$242.6 million for these programs. Under the provisions of AB 1913, this program was scheduled to expire July 1, 2002. Chapter 475, Statutes of 2001 (SB 739, Poochigian, Burton et. al.) removed the sunset date and made the program permanent. The Budget Act of 2001 appropriated \$232.6 million for the program, a reduction of \$10 million from the prior year.

The Governor's Budget proposes \$232.6 million for these programs in the budget year.

COMMENTS:

Counties have just begun a multi-year commitment to implement long term strategies to reduce juvenile crime and delinquency. It is too early to determine the effectiveness of these strategies however the stability of the funding would be an important factor in the evaluation of the impact of the county plans. This would support the continuation of the existing grant amount.

ISSUE 2: HIGH-TECHNOLOGY LAW ENFORCEMENT GRANTS

(Millions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$35.4	--	\$35.4

BACKGROUND:

In the current year, a total of \$35.4 million was appropriated from the General Fund for one-time allocations to local law enforcement agencies for purchases of high technology equipment. Funding is allocated to county sheriffs and city police chiefs on a per capita basis of the city or county or city and county of its service area. Under the provisions of the grant, local law enforcement agencies are required to report on the nature of the expenditures and how they benefit public safety. According the provisions of the grant, unexpended funds are reverted back to the State.

The Governor's Budget proposes to provide a second year of funding for these grants in 2002-03.

COMMENTS:

In the 2001 Budget Act, control language specifies the grant is of a one-time nature. In view of the current fiscal pressures on the General Fund, the subcommittee may want to delete funding for this item in 2002-03. The Legislature may want to reconsider funding for this program when the General Fund condition has improved.

The state currently is pursuing federal funding for anti-terrorism efforts. Some of the equipment that would be provided by these High-Technology Grants may qualify for federal funding if the state is successful.

ITEM 9210 LOCAL GOVERNMENT FINANCING

ISSUE 3: LAO OPITON—ELIMINATE BOOKING FEE SUBVENTION

(Millions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$38.2	--	\$38.2

The LAO has identified as an option elimination of reimbursements to cities and special districts for jail booking fees they paid to counties in 1997-98. Resulting General Fund savings would be \$38.2 million.

BACKGROUND:

Chapter 466, Statutes of 1990 (SB 2557, Maddy) gave counties the ability to charge cities and special districts a booking fee each time an individual was booked into the county jail. While giving counties a new revenue source, the payment of booking fees also provides a fiscal incentive for police departments to not unnecessarily book individuals. Beginning with the 1999-00 budget, local governments have been annually reimbursed for the booking fees they paid in 1997-98. Eliminating the booking fee reimbursements, therefore, would affect those cities and special districts, which paid booking fees in 1997-98.

COMMENTS:

LAO –please describe the option and identify the cities that would be most affected.

ITEM 9210 LOCAL GOVERNMENT FINANCING**ISSUE 4: LAO OPTION—ELIMINATE THE ERAF EXEMPTION FOR MULTICOUNTY SPECIAL DISTRICTS**

The LAO has identified an option to shift property tax revenues from multicounty special districts to schools, reducing the state's funding obligation to schools by about \$45 million.

BACKGROUND:

The Legislature established the Educational Revenue Augmentation Fund (ERAF) as part of its actions to shift property tax revenues from local governments to schools. Since 1992-93, most special districts have had a share of their property taxes diverted to ERAF. In the ERAF legislation, the state exempted (or reduced the shift amount from) fire, hospital, and certain other special districts. The ERAF legislation also exempted districts whose boundaries crossed county lines, the so-called "multicounty" special districts.

LAO points out that, unlike the other ERAF exemptions, the exemption for multicounty districts received scant attention by the Legislature at the time of ERAF enactment. It generally was thought to reflect:

- Historic practice of differential treatment of multicounty property taxes.
- Technical difficulties associated with implementing a property tax shift that spanned county boundaries.

COMMENTS:

Upon review, LAO concludes that the bases for the exemption appear invalid. Historic practices addressed unrelated matters, and technical concerns with implementing a multicounty ERAF shift could be resolved.

LAO's Rationale. If the ERAF shifts are to remain in place, there is no reason that similar districts should be treated differently because of their geographical boundaries.

Impact. Shifting multicounty property taxes to schools would decrease state K-14 education costs by about \$45 million annually. About 92 special districts would be affected—mostly water, recreation and park, and flood control districts