

**AGENDA**  
**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4**  
**ON STATE ADMINISTRATION**

**Assemblymember George Nakano, Chair**

**WEDNESDAY, APRIL 24, 2002**  
**STATE CAPITOL, ROOM 437**  
**1:30 P.M.**

**CONSENT CALENDAR**

ITEM	DESCRIPTION
0520	SECRETARY FOR BUSINESS, TRANSPORTATION, AND HOUSING

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**ITEM 1760 DEPARTMENT OF GENERAL SERVICES**

The objectives of the Department of General Services (DGS) are to: (a) Meet the varied responsibilities for management review, control and support of state agencies as assigned by the Governor and specified in statute; (b) Provide support services to operating departments with greater efficiency and economy than they can individually provide for themselves; and (c) Increase effectiveness and economy in the administration of state government by establishing and improving statewide policies and guidelines.

(in millions)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$113.29	\$-2.51	\$22.97

**ISSUE 1: ZIGGURAT BUILDING**

The Governor's proposed budget includes a permanent augmentation request for \$5.43 million (\$56,000 General Fund) to fund increased costs for the fiscal year 2002-03 resulting from the consolidation of the majority of its operations from the Sacramento downtown area to the Ziggurat Building at 707 3<sup>rd</sup> Street in West Sacramento effective 2001-02.

**BACKGROUND:**

Under provisions of SB 1270 (Government Code Section 8169.5, Chapter 761, Statutes of 1997), DGS and the Departments of Health Services and Education were to substantially consolidate their headquarters operations into the new East End Office Complex that is currently under construction. However, according to DGS, due to the growth in the number of employees in these three agencies it was not possible to completely consolidate in the future East End Complex. DGS, in turn, identified the Ziggurat building to be the best fit for its space needs and respectively entered into an 18-year lease agreement to consolidate the majority of its operations beginning in November 2001.

**COMMENTS:**

Is the DGS, in whole, located at the Ziggurat Building?

What is the difference in cost with being located at Ziggurat, rather than the East End Project?

Is there an option to buy this building?

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 2: ENERGY CONSERVATION**

Performance contracting is recognized by many state and local governments as a method of saving money for government entities. This method uses the private sector contracting community to retrofit existing state buildings and facilities to replace energy consuming devices such as lights, heating & air conditioning systems, with more efficient devices and thereby reducing the energy costs.

California Public Agencies are entitled to contract with qualified Energy Service Companies (ESCOs) to acquire energy efficiency and/or conservation services. Section 388 of the Public Utilities Code provides authority for Public Agencies to contract for a term not to exceed 35 years. This contract authority is provided to the Trustees of the California State University System and the University of California System by Section 10709 of the Public Contract Code and to Local Agencies by Section 4217.10 of the Government Code.

- DGS's ESCo Solutions program enables a Public Agency to contract with a qualified ESCo that has been competitively selected.
- ESCo performance contracting offers a guarantee that the Public Agency will receive the economic benefits associated with the conservation measures recommended and installed by the ESCos.

**COMMENTS:**

The Department should report to the sub-committee on the following:

- Has the Department identified specific cost savings with this energy conservation program?
- Is performance contracting an accepted form of contracting outside of the energy conservation program?
- How many energy service companies are participating in this program?
- How many energy conservation projects have been approved? What is the general timeline for these projects?
- What is the process for getting such "energy saving" projects approved for state facilities?

If performance contracting is an accepted form of contracting – is the DGS utilizing this method?

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 3: CALIFORNIA ENTERPRISE IT PROJECTS**

The Governor's budget includes a proposal for \$5.8 million (General Fund) to (1) continue restructuring and support the critical use of the California Home Page and (2) respond to the increase in e-mail activity.

**BACKGROUND:**

The business objectives of the Home Page are to:

- Become universally accessible for all statistically relevant browser types, low-band width conditions, older PC technology, and multimedia presentations, and to become handicapped accessible.
- Provide a web Portal to all types of state maintained and public data including public forms, state departments, educational sites and multimedia sites.
- Provide an automated public inquiry site.
- Provide a home page system design that ensures data and content accuracy, faster home page load time, easier navigation, scalability, usage statistics and/or performance and search capabilities.

**COMMENTS:**

Summarized below is the augmentation requested for the Home Page:

<b>Consulting</b>	\$3.4 million
<b>Hardware, Software</b>	\$2.1 million
<b>Travel</b>	\$.03 million
<b>Communications</b>	\$.15 million
<b>TOTAL:</b>	<b>\$5.7 million</b>

Considering the budget shortfall is \$5.8 million a prudent use of the State's General Fund dollars?

What are the security concerns associated with this request?

What will happen if the request is not approved for 2002-03?

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 4: PRINTING SERVICES**

In November 2001, DGS released a Management Memo 01-20 requiring all printing projects to be submitted to the Office of State Publishing (OSP). OSP will offer to produce all printing that conforms to the OSP's facility equipment capacity and ability. Printing projects that do not conform to the OSP's equipment capacity and ability may be procured through the OSP procurement unit.

In a follow-up Management Memo (MM) in December 2001, DGS stated that Government Code 19130 is the basis for printing being classified as a "personal service" and for civil servants taking priority over private vendors. The MM also states that according to Government Code 14612(g), a \$5,000 exemption limit remains in place – meaning that orders for less than \$5,000 may be contracted out without soliciting a bid from, or getting permission from OSP.

**COMMENTS:**

The Department should comment on the following:

What exactly do the provisions of Section 19130 include?

How does OSP determine which jobs go to a private bidder?

How has the timeline changed for a printing project being completed?

What is the cost difference with this new method? If savings have been experienced, does the Department have figures that exhibit these saving?

What is the advantage of OSP handling all printing project requests?

**ITEM 1760                    DEPARTMENT OF GENERAL SERVICES**

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**ISSUE 5: 15 PERCENT GENERAL FUND REDUCTION**

The Governor's budget proposes a General Fund reduction and Service Revolving Fund expenditure authority increase of \$2.34 million in its eBusiness Center and a General Fund reduction of \$115,000 in its Asbestos Abatement Program, for a total General Fund appropriation reduction of \$2.51 million. Client agencies will be billed for services performed by the eBusiness Center in lieu of a General fund appropriation. Asbestos Abatement workload will be prioritized consistent with the proposed reduction.

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 6: CAPITAL OUTLAY**

1. \$20.9 million (Lease Revenue Bonds) - Renovation of the Food and Agriculture Building at 1220 N St. – Construction Phase
2. \$107.3 million (Lease Revenue Bonds) – Renovation of Office Building #8 and #9 located at 714 and 744 P St. respectively. – Working Drawing and Construction Phases
3. \$24.8 million (Lease Revenue Bonds) – Renovation of Office Building #10 located at 721 Capitol Mall - Working Drawing and Construction Phases
4. \$21.09 million – Seismic Bond Projects
  - The LAO analysis points out that by approving these seismic bond projects, the Legislature will effectively be committing itself to \$47 million (general fund) in 2003-04.

**COMMENTS:**

The LAO has recommended consideration of Supplemental Report Language that would prioritize future seismic retrofit projects using actual occupancy rather than code occupancy as detailed in our analysis. They believe that this will more accurately reflect the risk to life posed by the seismically deficient buildings.

Supplemental Report Language:

*The Department shall use risk level and then actual building occupancy to prioritize future seismic retrofit projects rather than code occupancy.*

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 7: FINANCE LETTERS**

**California Enterprise IT Project (State Bar of California) - \$74,000 (Service Revolving Fund)** for ongoing costs of maintaining the State Bar of California's presence in the State Portal.

**Deferred Maintenance/Special Repair Projects - \$3.75 million (Service Revolving Fund)** for deferred maintenance/special repair projects in DGS' standard rental rate office buildings (\$2.7 million), the Attorney General Building (\$397,000), the Elihu Harris Building (\$468,000), the Junipero Serra Building (\$52,000), and the Riverside Towers (\$137,000).

**Lease Revenue (Cal EPA Building) - \$301,000 (Service Revolving Fund)** for increased cost of lease revenue payments and insurance on the lease revenue payments and insurance on the lease revenue bond for the California Environmental Protection Agency Building. Since this is not a State-owned building, it is being addressed outside of the traditional lease revenue update Finance Letter.

**Reappropriation of Local Seismic Grant Funding – Reappropriate up to \$3.86 million** for nine local seismic grants that were reappropriated by Item 1760-491, Budget Act of 2001.

**Control Section 4.40** – Revise to expand the capabilities of the eBusiness Center by eliminating eMarketplace projects and adding four new projects, including: (1) How to Open a Business in California; (2) Active Forms Pilot; (3) Online Filings; and (4) Online Assistance for Customers, as recommended by the Business Needs Survey and the Government Business Process Review.

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 8: ORACLE CONTRACT**

On May 31, 2001, the State entered into a six-year enterprise licensing agreement (ELA), a contract worth almost \$95 million, to authorize up to 270,000 state employees to use Oracle Enterprise Edition 8I database software and to provide maintenance support.

According the BSA report, DGS (one of 3 state departments responsible for oversight of large information technology projects),

*"... negotiating team was inexperienced and unprepared, with no expertise in software contracts and no in-depth knowledge of Oracle's business and contracting practices. Moreover, General Services limited the involvement of its legal counsel in the ELA contract to a few hours of review just before it was signed, and in general, limits its legal counsel's role in all IT contracts."*

The BSA report makes the following recommendations for the DGS:

- *General Services should further study the ELA contract's validity in light of the wide disparities we identified in Logicon's projections of costs and savings, and consult with the attorney general on how to protect the State's best interests.*
- *General Services should work closely with the attorney general in further analyzing the ELA contract; all amendments, including any and all documents pertaining to the side agreements between Oracle and Logicon; and the laws and policies relating to the ELA, including the potential legal issues that this audit has identified.*

**COMMENTS:**

What is the Department's response to the BSA claim that DGS' negotiating team was inexperienced and unprepared? What is the reason for limited involvement in the legal counsel's role in IT contracts?

What is the Department's response to the two recommendations made in the BSA regarding DGS?

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES**

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**ISSUE 9: CAPITOL SECURITY**

There is an increased need for security at the State Capitol. It is proposed that DGS be augmented by \$4.5 million (General Fund) of this purpose.

**ITEM 0553           INSPECTOR GENERAL FOR VETERANS AFFAIRS****ISSUE 1: GENERAL FUND REDUCTIONS**

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$470,000	-\$29,000	\$441,000

**BACKGROUND:**

Created in 1999 (Chapter 894), the Office of the Inspector General for Veterans Affairs is responsible for reviewing the operations and financial conditions of the State Veterans Homes, the State Farm and Home Purchase Program, State Veterans Services, and all other state supported veterans programs.

The Inspector General also operates a toll-free complaint hotline for veterans, conducts audits and investigations of State veterans programs, and makes recommendations for improving the operations of veterans programs.

**COMMENTS:**

The Governor's Budget proposes a \$29,000 general fund reduction for the IGVA.

**ITEM 8955 DEPARTMENT OF VETERANS AFFAIRS****ISSUE 1: CASH FLOW PROBLEMS****BACKGROUND:**

Cash flow problems have plagued the Department of Veterans Affairs for several years now. In an effort to help alleviate some of the problems, the Legislature has included supplemental report language in previous budgets that required the Department to track and report on efforts to solve the cash flow problem.

During the current year, the Department was required to submit three reports to the Legislature. The reports were due on August 31, 2001, December 31, 2001, and February 28, 2002. The first two reports were released on January 27, 2002 and the third one has not yet been released.

**COMMENTS:**

It is estimated that the Department will face a serious cash shortage at the end of the current year. According to the Legislative Analyst, the Yountville home will face a minimum \$1.7 million cash shortfall at the end of this month, which will worsen to \$7 million in June. At worst, the home will face a \$3.8 million shortfall in April, which would lead to a \$10.7 million shortfall in June.

According to the Department's report, there are no plans to address the impending shortfall by reducing purchases at the home (which occurred in 2000-01) because budget cuts have already been made for the year. Furthermore, the department did not make recommendations for addressing the problem in the report (as directed by the supplemental report language).

It is recommended that the subcommittee adopt the following supplemental report language that enables the legislature to continue monitoring the Department's progress in addressing the cash flow problems:

**Proposed Supplemental Report Language**

*8955-001-0001- Department of Veterans Affairs*

*The Department of Veterans Affairs shall submit the following reports to the Chair of the Joint Legislative Budget Committee and the chairs of the fiscal committees of both houses of the Legislature:*

- (A) *On December 31, 2002, the department shall report on the cash flow needs of the department and veterans homes. The report shall detail the expected expenditures and expected receipts of reimbursements and U.S. Department of Veterans Affairs per diem. The department shall notify the Legislature on what actions it would take to accommodate any cash shortfalls, including any plans to reduce purchases. The Department shall provide the status of any outstanding loans for shortfalls occurring in prior fiscal years.*
- (B) *On February 28, 2003, the department shall update the report pursuant to paragraph (a). The department shall describe the cause and fiscal implications of the differences*

*between the February 28 and December 31 reports. The department shall notify the Legislature on what actions it would take to accommodate any cash shortfalls, including any plans to reduce purchases. The department shall provide the status of any outstanding loans for shortfalls occurring in prior fiscal years.*

*The reports shall provide sufficient information to sustain a thorough analysis.*

**ITEM 8955 DEPARTMENT OF VETERANS AFFAIRS****ISSUE 2: REIMBURSEMENT COLLECTIONS****BACKGROUND:**

Reimbursements comprise a significant portion of the Veterans' homes' budgets. They primarily come from Medicare, Medi-Cal, member fees, "aid and attendance" federal payments, and the U.S. Department of Veterans Affairs (USDVA) per diem rate for each veteran.

The efficiency with which each home collects these reimbursements heavily impact the cash flow and operating budget of the homes. For the budget year, reimbursements comprise an estimated 51 percent of Yountville's budget, 38 percent of Barstow's budget, and 36 percent of Chula Vista's budget.

**COMMENTS:**

The Veterans' Home in Yountville has serious difficulties collecting reimbursements. In fiscal year 1999-00, the home implemented the Meditech system to improve collection practices. It was expected that the system would generate \$1.5 million from federal funds and reimbursements in the first year and \$6.9 million increased revenues in the next year. But due to several factors, the system was not used effectively and the increase in reimbursements did not occur.

When the Department is unable to collect reimbursements, it usually takes a short-term, interest-free loan from the General Fund. The Department is supposed to pay back the General Fund within six months of borrowing the money. Currently, the Yountville home has an outstanding balance of \$2.0 million for fiscal year 1999-00 and a \$3.3 million balance from 2000-01. Given that repayment of these loans has exceeded the six months time limit, the loans are forgiven and General Fund expenditures increase for the budget year. Furthermore, when reimbursements above and beyond the amount of the loans are collected, the Department is allowed to keep the excess dollars. It is recommended that the Legislature adopt the following language to ensure that these dollars are used to reimburse the General Fund for outstanding loans from prior years:

Department of Veterans Affairs - Statutory Language Re Repayment of Loans

*MILITARY & VETERANS CODE, SECTION \_\_\_\_\_. IF THE COLLECTION OF FEDERAL FUNDS OR REIMBURSEMENTS FOR SERVICES PROVIDED IN ANY FISCAL YEAR BY A VETERANS' HOME EXCEEDS THE BUDGETED REIMBURSEMENTS FOR THAT HOME, THE ADDITIONAL FUNDS COLLECTED SHALL BE USED TO REPAY ANY UNPAID GENERAL FUND LOANS PROVIDED IN PRIOR FISCAL YEARS FOR OPERATION OF THAT HOME.*

**The Department should comment on:**

- Their efforts to increase reimbursement collection
- The reasons for the lag in General Fund loan repayment
- **What happens if reimbursements are collected AFTER a General Fund loan has been forgiven? Where does the money go?**

**ITEM 8955 DEPARTMENT OF VETERANS AFFAIRS****ISSUE 3: CAPITAL OUTLAY****BACKGROUND:**

The Governor's Budget includes \$2.7 million for capital outlay projects for the Department of Veterans Affairs. The funding would be allocated as follows:

**\$253,000** (General Fund) for the Northern California Veterans Cemetery

**\$273,000** (General Fund) for capital outlay projects at the Veterans Home in Yountville

**\$743,000** (Bond Funds) and \$1,378,000 (Federal Funds) for three Yountville Home projects

**COMMENTS:**

The Veterans' Homes Bond Act of 2000 approved the sale of general obligation bonds for the improvement, construction, and planning of veterans' homes throughout the state. The Governor's budget includes \$743,000 from these bonds for capital improvement projects at the Veterans' Home in Yountville. These dollars are to be used as a 35 percent match for federal grant funds.

According to the Legislative Analyst, no federal funds are available for the three projects. It is recommended that the Legislature adopt budget bill language requiring the federal funds to be available before the bond funds can be spent.

*Provisions: for Item 8960-301-0701*

*1. Funds appropriated for preliminary plans, working drawings, and construction for the projects identified in Schedules (1) (2) and (3) of this item may not be expended until 30 days after the Department of Finance provides written notification to the Joint Legislative Budget Committee that the United States Department of Veterans Affairs has committed federal matching funds.*

*2. Funds appropriated for working drawings and construction for the projects identified in Schedules (2) and (3) of this item are available for encumbrance until June 30, 2005.*

**ITEM 8940                      MILITARY DEPARTMENT****ISSUE 1: TURNING POINT ACADEMY**

(MILLIONS)

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
\$7.4	-\$4.4	\$3.0

**BACKGROUND:**

SB 1542 (Schiff), Chapter 366, Statutes of 2000 established the Turning Point Academy (TPA), a residential military academy that is part of the Military Department's Youth Program. The legislation also appropriated \$9.2 million for TPA.

TPA is a year round program for juvenile offenders (ages 15 and up) that commit a firearms offense at school or at a school activity. Currently, In order to be eligible, the offender must have no prior record, mental illness, or sexual problems. Additionally, the offender must be referred to TPA by a juvenile court judge. The court that makes the referral must be located in a county that has passed a resolution to participate in the program. Currently, 18 counties have passed resolutions.

Since its inception, TPA has not come remotely near cadet capacity. The total capacity of TPA is 320 cadets annually (160 cadets every six months) and the current population at TPA is eight cadets. The Administration has sponsored legislation (SB 1979- Costa) to increase eligibility criteria. The Department should comment on the legislation during the subcommittee hearing.

**Cadets remain at TPA for six months and their records are expunged upon completion of the program.**

The budget proposes \$3.0 million for ongoing costs and support for 32 positions at TPA. The expected capacity for TPA is 15 cadets every six months, a total of 30 cadets in the budget year.

**COMMENTS:**

How are eligibility criteria being expanded under SB 1979 (Costa)?

**ITEM 8940                      MILITARY DEPARTMENT****ISSUE 2: BRIDGE SECURITY**

CURRENT YEAR	PROPOSED CHANGE	PROPOSED BUDGET EXPENDITURES
0	\$6,000,000	\$6,000,000

**BACKGROUND:**

After the terrorist attacks on September 11<sup>th</sup> and some threats to California's bridges since, Governor Davis has placed National Guard soldiers on duty at the Coronado, Golden Gate, San Francisco-Oakland Bay, and Vincent Thomas bridges. Funding for this security has come from the General fund.

**COMMENTS:**

The Governor's budget includes \$6.0 million in Federal Funds for security in the budget year. The Legislative Analyst withholds recommendation on this issue because a federal funding source has not been identified yet.

**The Department should comment on the following:**

- Has a federal funding source been identified?
- If not, what would happen if this proposal was approved and federal funding remained unavailable?
- Would the General Fund be held liable to pay the \$6 million?

Proposed budget bill language authorizing expenditure contingent on receipt of federal funds:

*Of the amount appropriated in item 8940-001-0890, \$6,000,000 shall be used for support of bridge security activities. This expenditure authority shall be contingent upon receipt of funds for this specific purpose.*

**ITEM 8940                      MILITARY DEPARTMENT****ISSUE 3: CAPITAL OUTLAY****BACKGROUND AND  
COMMENTS:**

The Military Department maintains 118 armories and 32 maintenance operations throughout the state.

The Governor's budget includes \$9.485 million (General Fund) for capital outlay projects for the Military Department. These projects include (General Fund amounts):

- Design and construction of new armories in Azusa (\$6,077,000) and Lancaster (\$2,328,000)
- Replacement of the electrical distribution system at the Los Alamitos airfield (\$225,000)
- Various minor capital outlay projects (\$855,000)

The Legislative Analyst withholds recommendation on funding for the Military Department's capital outlay program pending receipt and review of the department's phase II facility master plan. The LAO contends that without this information, the Legislature cannot assess the department's facility needs and priorities. In order to address the importance of the Phase II Master Plan, the following language is proposed: *The Legislature urges the Adjutant General of the Military Department to proceed and complete the phase 2 Master Plan in a timely manner.*

The Department should comment on the following:

- Do the state dollars leverage any federal dollars? How much and for which projects?
- Why is the Phase II Facility Master Plan not yet complete? What is the anticipated completion date?