

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

**Assemblymember Joan Buchanan, Chair
THURSDAY FEBRUARY 10, 2011
STATE CAPITOL, ROOM 126
UPON ADJOURNMENT OF SESSION**

CONSENT CALENDAR

ITEM	DESCRIPTION	
8955	DEPARTMENT OF VETERANS AFFAIRS	3
ISSUE 1	YOUNTVILLE STEAM DISTRIBUTION SYSTEM RENOVATION	3
ISSUE 2	YOUNTVILLE CHILLED WATER DISTRIBUTION SYSTEM RENOVATION	4
ISSUE 3	YOUNTVILLE CEMETERY RENOVATION	4

VOTE-ONLY CALENDAR

ITEM	DESCRIPTION	
0855	CALIFORNIA GAMBLING CONTROL COMMISSION	5
ISSUE 1	GAMBLING CONTROL LICENSES	5
ISSUE 2	REMOTE CALLER BINGO	5
1760	DEPARTMENT OF GENERAL SERVICES	6
1700	DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING	6
ISSUE 1	TRANSFER OF DEPARTMENT OF FAIR EMPLOYMENT HOUSING IT FUNCTIONS TO DEPARTMENT OF GENERAL SERVICES	6
8860	DEPARTMENT OF FINANCE	7
ISSUE 1	CALIFORNIA RECOVERY TASK FORCE	7

ITEMS TO BE HEARD		
ITEM	DESCRIPTION	
8855	BUREAU OF STATES AUDITS	8
ISSUE 1	2011-12 BUDGET INCREASE	9
1110	DEPARTMENT OF CONSUMER AFFAIRS AND BOARDS	11
ISSUE 1	ACCOUNTANCY FUND AND STATE DENTISTRY FUND LOAN REPAYMENT	11
0855	CALIFORNIA GAMBLING CONTROL COMMISSION	12
ISSUE 1	SPECIAL DISTRIBUTION FUND GRANTS	12
0840	STATE CONTROLLER'S OFFICE	14
ISSUE 1	UNCLAIMED PROPERTY LEGAL COSTS	14
0520	SECRETARY OF BUSINESS, TRANSPORTATION AND HOUSING	15
ISSUE 1	SMALL BUSINESS LOAN GUARANTEE EXPANSION	15
8955	DEPARTMENT OF VETERANS AFFAIRS	17
ISSUE 1	VETERANS HOMES OF CALIFORNIA BUDGET INCREASE	17
ISSUE 2	ELIMINATION OF CVSO FUNDING	20
1100	CALIFORNIA SCIENCE CENTER	22
ISSUE 1	\$3.7 MILLION UNALLOCATED REDUCTION	23
1760	DEPARTMENT OF GENERAL SERVICES	24
ISSUE 1	REDUCTION IN DGS RENTAL RATES	24

CONSENT ITEMS

8955 DEPARTMENT OF VETERANS AFFAIRS

ISSUE 1: YOUNTVILLE STEAM DISTRIBUTION SYSTEM RENOVATION

Governor's Budget. The Department of Veterans Affairs requests \$3,387,000 in lease revenue bonds to renovate the deteriorating underground steam distribution system at the Yountville Veterans Home. Total cost estimated for the project is \$7,482,000 – funded by Lease Revenue Bonds (\$3,387,000) and Federal Trust Fund (\$4,095,000).

Background. The steam distribution system provides heating and domestic hot water to all 120 buildings that serve the elderly and disabled veterans who reside in the home. The system is also used to keep food warm, sterilize equipment and as a heat exchanger to provide cooling.

The renovation will update the steam lines that are insulated using asbestos containing material (which is deteriorating) and add 10 additional ADA-compliant parking spaces. The Section A residence where the parking spaces will be added currently houses 90 residents, but only has 12 parking spaces. Since the landscaping will be disturbed during construction, the parking spaces will be added cost effectively into the project and garner federal participation.

Financing. Funding for this project will come from a Lease Revenue Asset Transfer. Used primarily in the UC/CSU system, an asset transfer provides cash to lease revenue funded projects before they are at a point where bonds could be sold. To do this, bonds are sold against another state-owned asset, in this case the Annex I Building or the California Veterans Cemetery. The lease is secured by the existing asset, but the proceeds from the bond sale are used to build other projects. \$3,387,000 to fund this renovation will come from the lease revenue asset transfer and the remainder \$4,095,000 will come from federal funds.

STAFF COMMENT

Without renovation sanitation, health and safety and quality of service to residents will be endangered.

ISSUE 2: YOUNTVILLE CHILLED WATER DISTRIBUTION SYSTEM RENOVATION

Governor's Budget. The Department of Veterans Affairs requests \$2,236,000 in lease revenue bonds to correct deficiencies in the chilled water system at the Yountville Veterans Home. Total estimated cost is \$6,398,000 and will be funded by: the Veterans' Home Bond (\$497,000), Lease Revenue Bonds (\$2,236,000) and Federal Trust Fund (\$3,665,000).

Background. The chilled water distribution system regulates temperatures in the home, which is necessary and mandated by the California Department of Public Health Services. The current system does not maintain the water at the proper temperature when the outside temperature exceeds 96°F. The project will renovate the entire system by adding chiller capacity by replacing the cooling tower, and updating several pumps and valves.

Funding for this project also uses the Lease Revenue Asset Transfer process.

STAFF COMMENT

Renovation is necessary to ensure the health and safety of residents of the home.

ISSUE 3: YOUNTVILLE CEMETERY RENOVATION

Governor's Budget. The Department of Veterans Affairs proposes requests of \$2,411,000 of Federal funds for the construction phase of the Yountville cemetery restoration project.

Background. The renovation project is recognized by the U.S. Department of Veterans Affairs State and Tribal Government Cemetery Grants Program. General Obligation bonds have been approved in the amount of \$436,000 for the preliminary plans and working drawing phases of the project. Total cost of \$2,847,000 will be fully reimbursed by the federal government once the grant is awarded.

The use of decomposing granite prevents the need for additional state funded grounds keeping positions upon completion of the renovation.

VOTE-ONLY CALENDAR**0855 CALIFORNIA GAMBLING CONTROL COMMISSION****ISSUE 1: GAMBLING CONTROL LICENSES**

The Governor's budget proposes \$45,000 in one-time funding from the Gambling Control Fund for information technology upgrades necessary to process delinquency fees for late renewals of gambling licenses based on authority provided in AB 2596 (Portantino, Chapter 553, Statutes of 2010).

BACKGROUND

The Department of Finance has notified the committee of the administration's request to withdraw this proposal. According to DOF, the Commission has determined that it can absorb this workload within existing resources.

ISSUE 2: REMOTE CALLER BINGO

The Governor's budget proposes 1.0 position and \$104,207 from the California Bingo Fund on a one-time basis to address workload associated with the California Remote Caller Bingo Act.

BACKGROUND

The Remote Caller Bingo Act (SB 1369 [Cedillo], Chapter 748, Statutes of 2008) was approved by the Legislature to authorize remote caller bingo as a game that allows specific nonprofit organizations to use audio or video technology to remotely link designated in-state facilities to cosponsor live bingo games. The Commission is required to regulate remote caller bingo, including licensure and development of regulations. In addition, the Remote Caller Bingo Act requires the Commission to license persons that manufacture, distribute, supply, vend, lease or otherwise provide card-minding devices for bingo ("traditional" bingo and remote caller bingo).

While the Commission has recognized charitable organizations as eligible to conduct remote caller bingo games, no games have yet been conducted. The program was intended to be funded entirely from program fees, but it has primarily been funded from loans from the Gambling Control Fund and the Indian Gaming Special Distribution Fund because the program has only generated about \$52,000 since its inception. To date, ten organizations have been recognized to conduct remote caller bingo, and six more organizations are currently in the application process or scheduled to be considered by the Commission.

The Commission has indicated that it is currently working with the Administration to access the ongoing need for this program and is working to update this proposal later in the spring.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES**ITEM 1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING****ISSUE 1: TRANSFER OF DEPARTMENT OF FAIR EMPLOYMENT HOUSING IT
FUNCTIONS TO DEPARTMENT OF GENERAL SERVICES**

The Department of General Services (DGS) is requesting approval to assume operation and oversight of the Department of Fair Employment and Housing's (DFEH) IT functions. Currently, DFEH has seven positions dedicated to providing IT. Under the proposed transfer, five of these positions would be transferred to DGS and two of the positions would be redirected for another DFEH purpose.

The five positions transferred to DGS were filled IT positions at DFEH. DFEH is reimbursing DGS \$507,000 for the cost of these positions. DGS agreed to eliminate five vacant positions and reduce their operating budget by \$300,000 as part of this transaction. Therefore, this transaction reduces state positions by a net of five and has a net savings of \$300,000.

SENATE ACTION

The Senate agenda today recommends the following action: Adopt the proposed shift of positions and funding, but make the reimbursement to DGS limited to two years, so that further review of the costs can be assessed in the future.

STAFF COMMENT

The Subcommittee adopted this proposal on January 24, 2011. The Senate actions is in line with the action of the Subcommittee.

ITEM 8860 DEPARTMENT OF FINANCE

ISSUE 1: CALIFORNIA RECOVERY TASK FORCE

The Department of Finance requests \$1,628,000 (\$928,000 General Fund) to continue the activities of the California Recovery Task Force. The Department requests 5 positions (one year limited term) to monitor the remaining active grants in 2011-12.

The funding would pay for three primary functions:

- \$578,000 Task Force (Contract for Federal Government, Quality Control for Quarterly Reporting, Accuracy of Jobs Numbers/Data)
- \$450,000 OSAE/FSCU (Audits, Compliance Monitoring)
- \$600,000 California Technology Agency (Maintain System, Help Desk, Website Maintenance)

As the ARRA provisions begin to expire, the number of grants will drop from the 1,121 grants in effect on September 30, 2010 to 568 grants remaining in 2011-12. The expenditures for the task force also reflect this decline in workload, with the budget declining from \$3.9 million in 2010-11 to the \$1.6 million for 2011-12.

SENATE ACTION

The Senate agenda for today recommends the following action: Approve the request but reduce the 2011-12 resources for the California Recovery Task Force by \$393,000 (\$224,000 GF and \$169,000 Central Service Cost Recovery Fund), including a reduction of two CRTF positions and \$150,000 to reflect reduced OSAE support.

STAFF COMMENT

The Subcommittee heard this issue on January 24, 2011

ITEMS TO BE HEARD

8855 BUREAU OF STATE AUDITS

The California State Auditor promotes the effective and efficient administration and management of public funds and programs by providing citizens and government nonpartisan, accurate, and objective assessments of state and local governments' financial and operational activities. As the independent auditor, the California State Auditor is the only state entity that the law grants full access to all records of state and local agencies, special districts, school districts, and any publicly created entity. The State Auditor conducts performance, financial, or compliance audits that are either mandated by statute or requested by the Legislature through the Joint Legislative Audit Committee. Further, the State Auditor is responsible for annually conducting California's statewide Single Audit—a combination of the independent audit of State's basic financial statements and the independent audit of numerous federal programs administered by California. The Single Audit is federally required as a condition for California to receive billions in federal funds each year.

The California State Auditor also identifies statewide issues or specific government entities at high risk for waste, fraud, abuse, and mismanagement or that have major challenges related to efficiency and effectiveness. The State Auditor has the authority to conduct evaluations of those issues and entities identified as being high risk. Additionally, under the California Whistleblower Protection Act, the California State Auditor's office has broad authority to perform independent investigations into complaints that state employees or agencies have engaged in improper conduct. The State Auditor's office administers California's Whistleblower Hotline that enables the public to report improper acts committed by state agencies, departments, or employees, as defined by law.

The Voters FIRST Act (Act), approved by voters in November 2008 as Proposition 11, requires the State Auditor to initiate an application process for selecting the members of a 14-member Citizens Redistricting Commission (Commission) every ten years. The State Auditor develops regulations to implement the application and selection process of the Commission and conducts comprehensive outreach to prospective applicants to serve on the Commission. Using the new national census data, the Commission will be responsible for redrawing district lines for the California Senate, Assembly, and the State Board of Equalization.

ISSUE 1: 2011-12 BUDGET INCREASE

The Governor's budget includes an \$8.2 million (\$4.7 million General Fund) increase in funding for the Bureau of State Audits (BSA) for fiscal year 2011–12.

BSA reports that this increased funding will allow the bureau to better assist the Legislature in its oversight of government operations. The additional funding allows the bureau to maintain its high standard of excellence while implementing a two-year plan to enhance and increase the bureau's oversight activities such as conducting additional audits, completing more high risk analyses, and providing assistance and testimony to legislative policy and budget committees . The two-year plan includes the following:

Year 1:

Add 34 staff, change in staffing level from 147 to 181 positions:

- ✓ 28 Audit Staff: Increase audit products from current average of 30 a year to 35 to 40 a year.
- ✓ 3 Investigative staff: Increase self-initiated statewide investigations from one a year to 3 to 4 a year.
- ✓ 2 Information Technology Audit Specialist: Assist staff with analyses and audit of electronic data central to the operations of the entities being audited.
- ✓ 1 Executive Office: Legislative, Governmental, & Public Affairs Consultant

Year 2:

Add 37 staff, increase from 181 to 218 positions:

- ✓ 26 Audit Staff: Increase audit products from 35 to 40 a year to 50-55 a year.
- ✓ 5 Investigative staff: Increase self-initiated statewide investigations from 3 to 4 a year to 4 to 8 a year.
- ✓ 2 Information Technology Audit Specialist: Assist staff with analyses and audits of electronic data central to the operations of the entities being audited.
- ✓ 2 Executive Office: Legislative, Governmental, & Public Affairs Consultant
- ✓ 2 Attorneys

The increased staffing level will provide the following:

Audit Products:

- ✓ Increase the number of audits, including discretionary and mandated audits as well as conduct more work under the high-risk authority, including audits, analyses, and evaluations.
- ✓ Faster turnaround of audits: With the additional staff, we will reduce the time it currently takes to conduct our audits. Plus, the additional staff will help reduce staff burnout and address our turnover problem.
- ✓ Further integrate the audit results and audit follow up with the legislative oversight process:
 - Advise budget and policy committee consultants on the operations of departments and/or programs studied by the BSA.

- Present relevant audit results at budget and policy committee hearings.

Investigations Unit: Provide additional outreach and education on the Whistleblower Protection Act to state employees and court employees who were added to the jurisdiction effective January 1, 2011.

Monetary Benefits: Additional audit and investigative results will produce more monetary benefits. Recent examples of savings include:

- ✓ \$194 million in unallowable costs plus \$53 million in cost avoidance over 7 years—State Mandates (2003 and 2009)
- ✓ \$3.6 million revenue increase—Citation Penalty Accounts (2010-108)
- ✓ \$4.8 million in cost avoidance—Medi-Cal TARS (2009-112)
- ✓ \$12 million cost recovery—CalWorks (2009-101)

In year 1, the BSA will use outside experts to conduct the federal compliance audit work, which will allow them to recruit and train in-house staff to conduct the additional mandated, discretionary, and high-risk audit work as well as investigations. The additional audits will generate an increase in other activities such as inquiries and requests from legislative staff, legal assistance, and public record requests. The BSA anticipates using about \$3.5 million of the requested funding for the contracted federal compliance audit work. The remaining \$4.5 million primarily will fund the additional staff to conduct more audit and investigative work and provide the services described above.

In year 2, the BSA anticipates having enough trained audit and investigative staff to conduct the increase in audit work and provide the services described above. Consequently, in year 2 they will substantially reduce or eliminate the contracted federal compliance work to fund the additional staff.

1110 DEPARTMENT OF CONSUMER AFFAIRS BOARDS**ISSUE 1: ACCOUNTANCY FUND AND STATE DENTISTRY FUND LOAN REPAYMENT**

Governor's Budget Request. The Governor requests repayment of two loans from the General Fund to special funds: 1) \$10 million repayment by the General Fund to the Accountancy Fund, and 2) \$2.5 million repayment by the General Fund to the State Dentistry Fund.

Background. During the 2010-11 fiscal year, the State loaned \$10 million from the Accountancy Fund to the General Fund. This amount is set to be repaid June 30, 2012.

During the 2002-03 fiscal year, the State loaned \$2.5 million from the State Dentistry Fund to the General Fund. This amount is set to be repaid June 30, 2012.

STAFF COMMENT

Staff has been notified that the Accountancy Fund loan repayment can be delayed by one year without having an influence on the Board's programs. Additionally, \$1.3 million of the loan from the State Dentistry Fund can be delayed by one year without having an influence on the Board's programs. Both loan amounts can be delayed by adopting budget bill language to delay until 2013 and relieve the General Fund in budget year by \$11.3 million.

To delay repayment of the Accountancy Fund \$10 million loan until June 30, 2013:

Add Item 1110-404:

1110-404—Notwithstanding Provision 1 of Item 1110-011-0704, Budget Act of 2010 (Ch.712, Stats. 2010), the \$10,000,000 loan to the General Fund will be repaid in fiscal year 2012-13 upon order of the Director of Finance.

Delay repayment of \$1.3 million of the State Dentistry Fund loan repayment until June 30, 2013:

Add Item 1110-405:

1110-405—Notwithstanding Provision 1 of Item 1250-011-0741, Budget Act of 2002 (Ch. 379, Stats. 2002), the \$1,300,000 loan to the General Fund will be repaid in fiscal year 2012-13 upon order of the Director of Finance.

0855 CALIFORNIA GAMBLING CONTROL COMMISSION

The California Gambling Control Commission (Commission) has jurisdiction over gambling establishments (cardrooms), Tribal casinos, and charitable organizations that offer remote caller bingo, pursuant to its authority under State law and Tribal-State Gaming Compacts (Compacts).

There are 90 licensed cardrooms in California over which the Commission has regulatory authority. This authority extends to the operation, concentration, and supervision of the cardrooms and all persons and things related to each licensed establishment.

The Commission has fiduciary, regulatory, and administrative responsibilities related to Tribal gaming that include: (1) oversight of Class III gaming operations, which are primarily casino-type games, (2) distribution of Tribal gaming revenues to various State funds and to authorized, federally-recognized, non-Compact Tribes, (3) monitoring of Tribal gaming through periodic background checks of Tribal key employees, vendors, and financial sources, (4) validation of gaming operation standards through testing, auditing, and review, and (5) fiscal auditing of Tribal payments to the State pursuant to Compact provisions.

The Commission has fiduciary, regulatory, and administrative responsibilities related to remote caller bingo that include: (1) regulation of the licensure and operation of remote caller bingo, (2) validation of gaming operations standards through testing, auditing, and review, and (3) fiscal auditing of the organizations and vendors of equipment that conduct remote caller bingo.

ISSUE 1: SPECIAL DISTRIBUTION FUND GRANTS

Budget bill language is proposed that would provide a one-time exemption to the reporting requirement deadline for counties that receive specific Indian Gaming grants.

BACKGROUND

In 1999, the Governor and 58 tribes reached agreements on casino compacts and the Legislature passed a law approving them. In 2007, the Legislature ratified amended compacts with five Southern California tribes. (Four of the compacts were addressed in referenda on the February 2008 ballot, when voters allowed the four compacts to go into effect.)

The 1999 compacts established the Indian Gaming Special Distribution Fund (SDF), which receives payments from the compact tribes (the 2007 compacts redirected some of these payments to the General Fund). Chapter 858, Statutes of 2003 (SB 621, *Battin*), specifies the priority use of SDF funds as follows; 1) funding the Revenue

Sharing Trust Fund, which makes payments to non-compact tribes, 2) problem gambling prevention programs, 3) regulatory costs of the Gambling Control Commission and the Department of Justice, and, 4) **grants to local governments affected by tribal casinos.**

Government Code Section 12716 requires counties that receive the above mentioned grants to fulfill specific reporting requirements by October 1st of each year in order to be eligible for the grant the following year. The following budget bill language is proposed to provide an exemption to the reporting deadline for fiscal year 2009-10 and allow counties to receive grants pursuant to the \$30 million appropriation made by the Legislature last year (SB 856):

0855-001-0367

X. Notwithstanding Government Code Section 12716 (b), for funds authorized by Chapter 719, Statutes of 2010 (SB 856), the State Controller is authorized to allocate Indian Gaming Special Distribution Fund grants to a county that submits an annual report after the October 1 deadline but prior to July 1, 2011.

ITEM 0840 STATE CONTROLLER'S OFFICE**ISSUE 1: UNCLAIMED PROPERTY LEGAL COSTS**

The Governor's Budget requests additional funding to address legal matters associated with representing the Unclaimed Property Program in lawsuits filed against the SCO. The request is for \$300,000 from the Unclaimed Property Fund for hiring outside legal representation for this purpose. Such cases are usually handled by the Attorney General's (AG's) office; however, the AG's office has informed the SCO that it cannot handle all the cases of this nature, either as a result of resources or the nature of the legal action. Typically the cases relate to a denial of claim for unclaimed property held by the SCO and involve questions regarding the constitutionality of the program and its proper administration. Not responding to the lawsuits in a timely manner could result in injunctions halting the normal operations of the program or judgments against the state.

COMMENTS

The Subcommittee heard this issue at its January 31, 2011 hearing and held it open. At that time, Subcommittee members raised questions about the number of cases to be referred to outside counsel. The original request indicated that there were 14 outstanding cases of this nature with the AG's office able to handle 8 of these and outside counsel assigned the remaining 6. Recent information indicates there are 24 outstanding cases with the AG providing legal representation for 22 of them.

The SCO has provided additional information to clarify the costs estimate. The costs were based with awareness that some of the 6 cases being handled by outside counsel were near completion and would have minimum costs. Thus, the estimate reflected hours necessary to litigate the two major cases, not the number of cases. The total is based on 1500 hours of outside counsel work for each trial. Outside counsel costs are \$200-\$350 per hour depending on the technical experience of the staff, with an average of \$275. Based on the estimate of required hours (3,000) and average hourly costs (\$275), the amount required would be \$825,000. Assuming these cases are completed in the next two years, the amount was reduced based on prior year and budget year amounts to \$650,000. Since SCO has a baseline amount of \$350,000 for litigation costs, \$300,000 is requested in this BCP.

0520 SECRETARY OF BUSINESS, TRANSPORTATION AND HOUSING**ISSUE 1: SMALL BUSINESS LOAN GUARANTEE EXPANSION**

Governor's Budget Request. The governor's Budget requests various budget changes related to the federal House Resolution 5297, the Small Business Credit Initiative, which will result in a one-time funding of \$84.4 million for the California Small Business Loan Guarantee Program (SLBG). The administration requests to: (1) revert \$20 million in General Fund support provided to the program one-time as part of the 2010 Budget Act (AB 1632, Statutes of 2010) and (2) to double the program staff from 1.5 positions to 3.0 positions.

Background. The SLBG program provides assistance to small businesses that may not qualify for traditional loans, by guaranteeing a portion of the loaned amount. The program is administered by 11 non-profit Financial Development Corporations (FDC's). The State pays FDC's for the administration of the program as specified in contractual agreements with each FDC. In the current year, administration funding for FDC's is approximately \$2.2 million (\$1.7 million General Fund and \$500,000 in interest earnings on the trust fund. The trust fund has a current balance of \$44 million. Additionally, the FDC's additionally collect fees between one and three percent on loan guarantees.

The current 1.5 State administrative positions for oversight of the Small Business Loan Guarantee Program are funded with \$150,000 general fund. In recent years, the SBLG program has experienced fluctuating general fund contributions, trust fund earnings, and even temporary suspension in new loan activities due to a prior reversion to the general fund. The additional 1.5 positions (half-time Program Manager and full-time Associate Governmental Program Analyst) requested would be covered by federal funds set aside for administrative costs as part of the grant –which will total \$1.4 million in the first disbursement and shared with the FDC's.

STAFF COMMENT

The additional \$84.4 million in federal funds will allow the Small Business Loan Guarantee Program to expand. Even with the \$20 million general fund reversion, this program will receive additional funds that were unexpected and will alleviate the general fund.

The Subcommittee heard this item on January 31st and took an action to hold the item open, to further review recommendations to relieve the general fund even further. Staff has been notified that a compromise may be presented to the Subcommittee.

LAO recommendation. The Analyst recommends the Legislature:

- a) Adopt the Governor's proposal to revert \$20 million to the General Fund.
- b) Adopt trailer bill language to allow for the reversion of the additional General Fund dollars as the lines of credit and loans backed by roughly \$24 million in state funds expire.
- c) Reduce the request for additional staff by one and approve the 0.5 managerial position.
- d) Consider eliminating the \$1.7 million General Fund subsidy provided to FDCs.

8955 DEPARTMENT OF VETERANS AFFAIRS

Department Overview. The California Department of Veterans Affairs (CDVA) promotes and delivers benefits to California veterans and their families. More specifically, the CDVA provides: (1) California veterans and their families with aid and assistance in presenting their claims for veterans' benefits under the laws of the United States; (2) California veterans with beneficial opportunities through direct low-cost loans to acquire farms and homes; and (3) the state's aged and disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment at the Veterans Homes of California (VHCs). The CDVA operates VHCs in Yountville (Napa County), Barstow (San Bernardino County), Chula Vista (San Diego County), and Greater Los Angeles Ventura County (with homes in West Los Angeles, Ventura, and Lancaster).

Budget Overview. The January Governor's Budget proposes to continue to ramp-up admissions at the VHCs in West Los Angeles, Lancaster, and Ventura. The Governor also proposes to provide continued resources and staffing related to the construction and activation of two new VHCs, in Redding and Fresno, both of which are scheduled to begin admissions in early calendar year 2012. The January Governor's Budget provides CDVA with 2,396.5 authorized positions and \$399.3 million (\$253.4 million GF).

The construction cost of the VHCs was/is funded with \$50 million in general obligation bonds available through Proposition 16 (2000), \$162 million in lease-revenue bonds [most recently amended by Chapter 824, Statutes of 2004 (AB 1077)], and federal funds.

ISSUE 1: VETERANS HOMES OF CALIFORNIA BUDGET INCREASE
--

Governor's Budget. The Governor's Budget reflects a net increase of \$39.8 million GF for the Veteran's Homes of California. This includes an augmentation of \$32.1 million for full-year and one-time adjustments to phase-in staffing and residents at veteran's homes in Greater Los Angeles Ventura County (GLAVC), Redding, and Fresno; \$4.7 million for furlough and personnel leave program reductions which are only reflected in the 2010-11 budget; and \$9.3 million in increased lease revenue bond payments for VHC-GLAVC. The expenditures are offset by an increase of \$5.8 million in GF revenues.

Background. The CDVA provides residential and medical care services to honorably discharged California veterans who served on active duty and are over the age of 62 or disabled. The VHCs are long-term residential care facilities that provide California's qualified aged or disabled veterans with rehabilitative, residential, medical, and support services in a home-like environment. Once an eligible veteran selects a VHC as his or her long-term care option, and is approved for admission, the veteran becomes a fee

paying resident of the VHC. Home residents are veterans of military service ranging from World War II, Korea, Vietnam, Gulf War I, and Operation Enduring Freedom and Operation Iraqi Freedom. Spouses of veterans may also be eligible for VHC membership. The VHCs provide a long-term continuum of care, from domiciliary care at one end of the spectrum, which is similar to independent living accommodations, to skilled nursing care at the other end of the spectrum, which provides continuous skilled nursing or rehabilitation services. The chart below illustrates the six VHCs that are currently operating, including their licensed bed capacity and levels of care provided:

Veterans Homes of California

	Yountville	Barstow	Chula Vista	West Los Angeles	Lancaster	Ventura
Year Established	1884	1996	2000	November 2010	February 2010	January 2010
Licensed Beds*	1,207	344	400	84	60	60
Domiciliary Care	Yes	Yes	Yes	No	No	No
Residential Care for the Elderly	Yes	Yes	Yes	Yes	Yes	Yes
Intermediate Care Facility	Yes	Yes	No	No	No	No
Skilled Nursing Care	Yes	Yes	Yes	Yes***	No**	No**
Memory Care	Yes	Yes	Yes	Yes	No	No

*Includes suspended beds.

**Residents needing SNF care at VHC-Ventura or VHC-Lancaster will transfer to VHC-West Los Angeles.

***To be added in 2011-12.

The Redding and Fresno facilities are expected to open early 2012. Both of these homes will provide the following levels of care: Residential Care for the Elderly, Skilled Nursing Care, and Memory Care.

2010-11 Budget. The 2010-11 budget provided the following for the VHCs: (1) VHC-GLAVC, 101.3 positions and \$7.5 million GF to continue construction, activate business, and begin admitting veterans; and (2) VHC-Redding and VHC-Fresno, respectively, 9.3 positions and \$908,000 GF, and 8.5 positions and \$908,000 GF, for Construction Completion and Pre-Activation Phase II activities.

STAFF COMMENT

Most of the funding in 2011-12 for VHC's is being used to adequately staff the GLAVC facilities and ramp-up the next phases of the VHC-Redding and VHC-Fresno. CDVA indicates that the hiring and occupancy timeframes have been updated to reflect admission schedules and level-of-care offerings at these homes. Further, CDVA indicates that it utilizes a "point-in-time" hiring approach, where staff is added as

resident admissions increase. However, it is worth noting that in past years when this Subcommittee considered similar VHC requests, and after the May Revision when caseloads are updated, some salary savings have been found because not all of the positions contained in the requests would be hired per the updated schedules.

Staff also notes that some questions have arisen about veteran demand at the GLAVC facilities. More specifically, both VHC-Lancaster and VHC-Ventura have been open since January and February 2010, respectively. Both homes were scheduled to admit eight residents per month until their budgeted capacity of 54 was reached in August and September 2010, respectively. The West Los Angeles campus was scheduled to admit eight residents per month for the first three months and then five residents each month thereafter until it reaches its budgeted capacity of 54 as of July 2011.

Veteran Home of California	Census (as of January 17, 2011)
Lancaster	22
Ventura	39
West Los Angeles	21

The CDVA indicates that both VHC-West Los Angeles and VHC-Ventura are on track to reach their census goal of 54 by the end of the 2010-11 fiscal year; for VHC-Ventura, this is ten months longer than the original schedule. In the case of VHC-Lancaster, CDVA indicates that the home may not reach its goal. The CDVA indicates that there is presently a lack of demand and applications for VHC-Lancaster; the CDVA indicates that it is engaged in a focused marketing and outreach campaign to reverse the situation. Regardless, given the current resident census at the GLAVC facilities, staff notes that there will likely be salary savings in the 2010-11 Budget due to the pace of admissions and admission levels at both VHC-Ventura and VHC-Lancaster. Staff does not recommend making any current year adjustments, as five months remain in the 2010-11 year and any savings will revert to the GF automatically. However, this situation presents a challenge for the Subcommittee in its consideration of the 2011-12 request for VHC-GLAVC, as well as for VHC-Redding and VHC-Fresno.

ISSUE 2: ELIMINATION OF CVSO FUNDING

Governor's Budget. The Governor's Budget eliminates the General Fund contribution to County Veteran Service Offices (CVSO's), totaling \$9.9 million (\$7.6 million local assistance and \$2.3 million state operations) in 2011-12.

Background. CVSOs are local agencies established in 1946 to assist veterans and their families in obtaining benefits and services accrued through military service. They act as the CDVA's network for claim initiation and development and draw down significant federal dollars annually. During Fiscal Year 2009-10 federal monetary benefits obtained by CVSO's totaled, \$299 million.

CVSO funding is a combination of local and state resources. The 2009-10 Budget Act provided \$2.6 million GF (a level static since 2004) and \$554,000 from the Veterans Service Office Fund (veteran license plate funding restricted to CVSO's) to counties toward compensation and expenses of CVSOs.

2010-11 Budget. A May Revision proposal in the 2010-11 Budget provided new funding to implement and sustain Governor Schwarzenegger's Operation Welcome Home (OWH), intended to assist veterans in receiving coordinated assistance including job placement, unemployment benefits, housing, healthcare, and federal, state, and local veterans' benefits and services

The May proposal increased CVSO's as follows: (1) \$5 million GF in ongoing operations funding for CVSOs; and (2) a one-time VSOF augmentation of \$768,000 to be spent over three years to implement the Subvention Administrative Information System - a hosted web-based service application system that will help each of the 56 County Veteran Service Offices with benefit case management.

2010-11 budget provisional language restricts expenditure of the \$5 million GF provided for CVSOs and OWH. The language permits the DOF to authorize expenditure of the funds subject to 30-day prior notification to the Joint Legislative Budget Committee (JLBC) and the fiscal committees of the Legislature. The DOF notification is required to include a CDVA plan detailing: (1) the process for awarding the funds; (2) how CDVA will measure performance of funding recipients; (3) the related data collection instrument; and (4) efforts to coordinate funding recipients and other agencies working on OWH. While CDVA submitted a plan to JLBC on December 22, 2011, DOF has not provided notice of intent to authorize expenditure of the funds. Without such DOF authorization, the funds will not be spent by CDVA or CVSOs and instead will be GF savings for 2010-11.

STAFF COMMENT

The Governor's Budget eliminates the \$2.6 million base funding for CVSO's and the \$5 million OWH augmentation first provided in 2010-11. The base funding of \$2.6 represents a 15 to 17 percent reduction in CVSO funding. The Department estimates that approximately half of the CVSO's would have to close their doors. It is also worth noting that \$838,000 of the \$2.6 million in base funding serves as a match for Medi-Cal for the CVSO's Medi-Cal Cost Avoidance activities to move veterans off of Medi-Cal and onto federal veterans' benefits thereby saving the state GF.

Staff also notes that the Department has notified Staff that an alternative is being explored.

1100 CALIFORNIA SCIENCE CENTER

Department Overview. The Science Center, the Office of Exposition Park Management and the California African American Museum (CAAM), are located in Exposition Park, a 160-acre tract in south Los Angeles, which is owned by the state and collectively known as the California Science Center. The Science Center is an education institution which provides educational exhibits and conducts educational programs to help students, teachers, and families understand science, math, and technology. The Office of Exposition Park Management provides long-term leadership in the development and implementation of park usage policy and day-to-day management, operation and promotion of the park for its tenants and the public. CAAM researches, collects, preserves and interprets for public enrichment, the history, art and culture of African Americans with emphasis on California and the western United States.

Budget Overview.

	2009-10	2010-11	2011-12 (proposed)
Expenditures	\$38.3 million	\$31.1 million	\$28.1 million
GF Expenditures	\$22.3 million	\$22.6 million	\$19.4 million
Personnel Years	168.2	190	190

Much of the past increased costs for the Science Center are linked to the Phase II expansion, which opened in 2010. The Science Center also receives additional funding from the Science Center Foundation, funded through donations and enterprise revenue generated through parking fees, IMAX theatre fees, and admission costs for special exhibits.

California Science Center Foundation Revenue

Revenue	2009-10	2010-11	2011-12
Operating Unrestricted Revenue	\$12.5 million	\$13.9 million	\$14.8 million
Operating Restricted Revenue	\$2 million	\$1.5 million	\$1.6 million
Total Operating Revenue	\$14.5 million	\$15.4 million	\$16.4 million

ISSUE 1: \$3.7 MILLION UNALLOCATED REDUCTION

Governor's Budget. The Governor's Budget includes an ongoing unallocated reduction of \$3.66 million General Fund and budget bill language to allow the Science Center to implement an admission fee in order to offset the reduction.

Background. The 2010-11 (former) Governors' Budget included a \$12 million reduction to the California Science Center. The Legislature rejected most of the proposal, but scored \$1.6 million in savings.

The California Science Center is the only museum in the state to receive General Fund dollars of this magnitude. From 2005-06 to 2010-11 the General Fund contribution to the California Science Center has increased by 56 percent. In 2004, the LAO recommended a general fund reduction to the California Science Center. The Legislature rejected the proposal, but asked that a report on the impact of a fee be conducted. The report showed that although the fee would generate revenue, there would also be a corresponding reduction in attendance. Reduced attendance would decrease parking revenues, concession and gifts revenue, and IMAX attendance. While the ranges of potential impact varied based on the theoretical fee (30% to 70% reduction in attendance) the report showed a clear potential for a negative impact on total funding levels due to decreased attendance.

The Science Center values itself on being accessible, and thus no admission fee has been charged. However, the Science Center does charge \$8 for parking, an admission fee for their IMAX Theatre, and admission fees for special exhibits as appropriate.

STAFF COMMENT

While it is questionable that the Science Center will be able to recuperate the entire \$3.7 million through admissions fees, it is important to note that the intent of the Administration is to provide an option to offset the reduction, not backfill it with admission fees. The Administration proposes a possible \$5 fee for adults and \$3 for children, excluding children on field trips. The Administration estimates for a possible 20 percent decrease in admissions. Reporting language on the phase-in of the fee is also included in the budget bill language, to track the progress of the fee and provides flexibility to achieve the unallocated reduction. However, ultimately this reduction is proposed as ongoing and major restructuring of operations will need to be completed if the Science Center is to be sustainable.

LAO Recommendation. We recommend that the Legislature adopt the Governor's January budget proposal of an unallocated reduction for the Science Center of \$3.7 million General Fund. Support for the Science Center should come from a mix of funding that includes admission fees, private donations, and other non-state revenues. Given the number of annual visitors and other potential revenue sources we believe that the Center could achieve the proposed reduction.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

ISSUE 1: REDUCTION IN DGS RENTAL RATES

The Department of General Services (DGS) has indicated that their rental rates will be decreasing substantially in the current and budget years. The Building Rental Rate is going from \$1.80/sq. ft to \$1.40 for 2010-11 and \$1.12 for 2011-12. The individual rate buildings are also decreasing with varying costs depending on the building. Attached is a spreadsheet that documents these changes and the estimated statewide savings in 2010-11 and 2011-12. Overall 2010-11 savings is \$31.3 million and 2011-12 savings is \$27.5 million. Finance is working on the General Fund Savings that will be recaptured from this reduction, but they will likely be approximately \$10 million in General Fund savings.

To capture the savings associated with these rate reductions the Finance requests uncodified trailer bill language that authorizes the Director of Finance to reduce appropriations to reflect a reduction in the building rental rates charged to departments by the Department of General Services.