

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

**Assemblymember Joan Buchanan, Chair
MONDAY JANUARY 31, 12:30 PM
STATE CAPITOL, ROOM 444**

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CONSENT ITEMS

1110 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 1: PHYSICIAN ASSISTANT COMMITTEE: INCREASE REIMBURSEMENT AUTHORITY

Governor's Budget. The Physician Assistant Committee (PAC) requests a \$25,000 increase in reimbursement authority in FY 2011-12 and ongoing to more accurately reflect actual reimbursement received annually.

Background. PAC reimbursements are received through applicant fingerprint fees and cost recovery ordered through disciplinary action. However, in 2007 PAC began requiring licensees placed on probation to pay probation monitoring costs and cost recovery from every stipulated settlement of disciplinary action. This has resulted in an increase of reimbursements added to a reserve.

FY (Month 13)	Budgeted Scheduled Reimbursement	Actual Reimbursements Received	Difference
2006-07	\$25,000	\$71,808	\$46,808
2007-08	\$25,000	\$35,943	\$10,943
2008-09	\$25,000	\$51,697	\$26,697
2009-10	\$25,000	\$62,143	\$37,143

In previous years, PAC has used program activities funds to backfill their enforcement budget. This has created a reserve in the reimbursement of enforcement funds and stopped program activities to fund enforcement requirements.

1111 DEPARTMENT OF CONSUMER AFFAIRS, BUREAUS, PROGRAMS AND DIVISIONS

ISSUE 1: BASELINE FUNDING REDUCTION

Governor's Budget. The Department of Consumer Affairs requests a \$1.6 million adjustment in the baseline funding in FY 2011-12 and on-going for the following DCA programs: Accountancy (-\$1,000,000), Architects (-\$100,000), Occupational Therapy (-\$34,000), and the Bureaus of Automotive Repair's High Polluter Repair or removal Account Program Administration (-\$500,000).

Background. Reductions are based upon their FY 2009-10 budget reversions and projected workload changes. Without a reduction, the programs are operating with a higher appropriation than is necessary.

VOTE-ONLY ITEMS**0845 DEPARTMENT OF INSURANCE**

ISSUE 1: PAPERLESS WORKFLOW SYSTEM PROJECT

Governor's Budget. The Department of Insurance requests an increase of \$2.6 million special fund expenditure authority from the Insurance Fund in FY 2011-12, to complete the final year implementation of the Paperless Workflow System Project (PWSP), and provide on-going maintenance.

Background. The PWSP was approved by the Legislature in the 2008-09 Budget, in an effort to remain consistent with the State's Information Technology Strategic Plan. This three-year project when completed will make the Department of Insurance a paperless environment. This request includes a one-time \$2.2 final project cost and \$400,000 in on-going maintenance cost. This final stage of funding will be used to develop the remaining eForms, complete automated workflows for internal and external transactions and convert the document managements system to a centralized one.

STAFF COMMENT

The Department of Insurance has invested \$5.2 million special fund in the first two years of the project. The Legislature should note that upon completion, a BCP will follow to request \$100,000 in expenditure authority for consultant cost and to convert the two-limited term positions (expiring June 30, 2012) to permanent positions.

ITEMS TO BE HEARD**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. FDC's also collect fees between one and three percent on each loan they administer. Funding for FDC's comes from annual general fund (about \$1.7 million) appropriations and interest earned from the loan guarantee trust fund (currently \$44 million) and the related special fund.

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. However, the proper staffing level for this program and the possibility of further relieving the general fund can be explored by the Subcommittee.

- 1.) Department: What additional workload will be incurred by the Department that requires an additional 1.5 positions?
- 2.) LAO: Can the baseline \$1.7 million General Fund support for state administration and the FDC's be deleted and backfilled with federal funds? Are there additional federal fund backfills the Legislature should consider? Does shifting the baseline general fund support to federal funds violate the federal use of these funds?

0845 DEPARTMENT OF INSURANCE

Department Overview. The California Department of Insurance (CDI) regulates the California insurance market and enforces the California Insurance Code, conducting examinations and investigations of insurance companies and producers, and working to ensure the financial solvency of companies so that they will meet their obligations to policyholders and claimants. CDI investigates more than 300,000 complaints annually and responds to consumer inquiries. CDI also reviews and approves insurance rates to enforce the statutory requirement that rates are not excessive or unfair, administers the conservation and liquidation of insolvent and delinquent insurance companies and fights insurance fraud in conjunction with local and state law enforcement agencies.

The Department received an increase of 71 positions and spending authority of \$16.4 million in the 2011-12 Governor's Budget.

BCP Background. The California health insurance market is regulated by two separate agencies, the Department of Managed Health Care (DMHC) and the CDI. DMHC oversees health care service for more than 21 million insured Californians. The CDI regulates all other PPO and indemnity health products provided by 98 insurers to approximately 9.3 million covered lives in the individual, small employee group, large group, and Medicare Supplement markets.

On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law, a comprehensive health reform proposal intended to expand coverage, control health care costs, and improve the health care delivery system. The PPACA makes several fundamental changes to the private health insurance market, including setting up a new competitive private health insurance market through state exchanges beginning in 2014, and prohibitions on lifetime benefit coverage limits and rescissions of coverage. In 2010, several state statutory changes were enacted to align California law with the new federal mandates under the PPACA. These statutory changes drive 2011-12 budget requests for both the CDI and the DMHC.

**ISSUE 1: HEALTH INSURANCE PREMIUM RATE (SB 1163) WORKLOAD
ADJUSTMENT**

Governor's Budget. The Department of Insurance requests a special fund authority increase of \$1.2 million from the Insurance Fund in 2011-12, \$1 million in 2012-13 and \$100,000 on-going to address new workload associated with SB 1163 (Chapter 661, Statutes of 2010).

Background. Senate Bill 1163 amended laws regulating health care service plans and health insurers in order to ensure that both the Department of Managed Health Care (DMHC) and the Department of Insurance (DI) have the authority to review rate fillings for all markets. This bill has begun to align California with the changes made by the federal Patient Protection and Affordable Care Act (PPACA) signed by President Obama on March 23, 2010.

SB 1163 would require DI to review rate fillings, make rates public, report to the Legislature quarterly on all unreasonable rate fillings, report trends to the U.S. Secretary of Health and Human Services, share information with the California Health Benefits Exchange and work with DMHS to issue guidelines and regulations.

The Department estimates that additional workload requirements will require; 8 two-year limited term positions, 1 one-year limited term position and 1 on-going position. Rate fillings are estimated to increase substantially, especially since the Department will now collect large group health insurance rate fillings. The overall anticipated impact is said to result in 450 additional rate fillings per year.

STAFF COMMENT

The Department of Insurance applied and received \$392,002 in federal grant funding for PPACA requirements. However, funding can only be used for federal requirements, including reporting to the U.S. Secretary on Health and Human Services. Compliance with SB 1163 will require additional resources. Current workload is based on estimates.

ISSUE 2: HEALTH CARE COVERAGE (AB 2470) WORKLOAD ADJUSTMENT

Governor's Budget. The Department of Insurance requests a special fund authority increase of \$642,000 from the Insurance Fund in 2011-12 and \$602,000 in 2012-13 to fund 6 Staff Counsel positions on a two-year limited term basis to support the additional rate filings and new cancellation and non-renewal appeal process specified in AB 2470 (Chapter 658, Statutes of 2010).

Background. Assembly Bill 2470 sets forth new requirements for insurer's ability to cancel, rescind and non-renew health insurance policies. The bill also created a system whereby the Commissioner will review the propriety of cancellation, rescissions and non-renewals where the insured has complained, with the insurer being entitled to a hearing. These changes are in-line with changes proposed by the Patient Protection and Affordable Care Act (PPACA) signed by President Obama on March 23, 2010.

STAFF COMMENT

Each policy filing is between 10 to 100 pages, and each is reviewed by an attorney. The Department of Insurance currently has 2.5 full time equivalent employees reviewing health insurance forms and has a backlog. Insurers began submitting PPACA compliant form changes late summer of 2010. Filings will increase with AB 2470 going into effect and the new requirement to file cancellations and non-renewals, and hold hearings at the request of insurers.

ISSUE 3: HEALTH BENEFIT EXCHANGE (SB 900 AND AB 1602) WORKLOAD ADJUSTMENT

Governor's Budget. The Department of Insurance requests a special fund authority increase of \$107,000 from the Insurance Fund in 2011-12, and \$100,000 in 2012-13 to fund 1 Staff Counsel positions on a two-year limited term basis to support the additional policy form review activities required as a result of the implementation of SB 900 and AB 1602.

Background. The Patient Protection and Affordable Care Act (PPACA) signed by President Obama on March 23, 2010 requires all states to establish an American Health Benefit Exchange by January 1, 2014. The Health Benefit Exchange will facilitate the purchase of qualified health plans by qualified individuals and small employers.

SB 900 creates the American Health Benefits Exchange, an independent public entity. Under this legislation, the Commissioner is required to work with the Director of DMHC to review the federal Health and Human Services internet portal prior to January 1, 2015. Should they find the portal inadequate, they are tasked to establish and maintain an electronic clearinghouse.

AB 1602 enacts the California Protection and Affordable Care Act (PPACA), and provides the California Health Benefits Exchange with operational authority, as well as implements the exchange and navigator provisions of the PPACA.

The Department anticipates an increase in health insurance policy submissions for review as a result of AB 1602. The PPACA will require each carrier that participates in the exchange to create five new policies with different levels of coverage. The Department will have to review these new levels within 30 days. Failure to do so allows companies to sell policies without DI review. The Department can still disapprove forms more than 30 days after submission, but policies sold between the time the 30 days ran out and the time the Department disapproves the form remain in effect.

STAFF COMMENT

The Department of Insurance currently has 2.5 full time equivalent employees (FTE) reviewing medical health insurance forms. The average annual incoming review load for each FTE is 208 policies. In 2009, the Department had a backlog of 165 policies. An additional 300 fillings are expected per year.

Although the exchange does not begin until 2014, it is anticipated that companies will begin to submit policies in FY 2011-12.

ISSUE 4: DEPARTMENT WORKLOAD RESOURCE ADJUSTMENT

Governor's Budget. The Department of Insurance requests a special fund authority increase of \$7.9 million from the Insurance Fund in FY 2011-12 and \$7 million in FY 2012-13 on-going to fund 54.0 positions to meet increasing workload and statutory mandates.

Background. Under Governor Schwarzenegger, the Department of Insurance budget was permanently reduced by \$17.4 million as a result of a line-item veto. As a result, the Department's backlog has increased. For example: the Rate Regulation Branch which could potentially save consumers millions through rate decreases has a backlog of 1,080 files. Other impacts include the reduction of travel budgets, which have led the Financial Surveillance Branch to eliminate field examinations and have delayed detection of insolvency.

The 54 positions are requested as follows:

Branch	Request
Rate Regulation Branch (RRB)	\$183,00 for two Associate Insurance Rate Analyst, \$25,00 for training and travel and \$60,000 for consultant and professional services.
Financial Surveillance Branch (FSB): (a) Financial Analysis Division, (b) Field Examination Division, (c) Actuarial Office and (d) General FSB cost.	(a) One Associate Examiner and one Program Technician, (b) One Associate Insurance Examiner, (c) one Investment Officer, one Senior Actuarial Statistician, \$208,000 in travel cost and \$25,000 in training cost, (d) \$56,000 to update software.
California Organized Investment Network (COIN)	One Investment Officer and \$83,000.
Consumer Services Market Conduct Branch (CSMCB): (a) Consumer Services Division and (b) Market Conduct Division.	(a) Two Associate Insurance Compliance Officers, two Senior Insurance Compliance Officers, One Supervising Insurance Officer, One Office Technician and \$10,000 to replace laptops, (b) Two Associate Insurance Rate Analyst, two Associate Insurance Compliance Officers, \$10,000 to replace laptops and \$15,000 for aircards,
Investigation Division (ID)	Five Insurance Investigators, One Supervising Investigator, \$26,000 in overtime costs and \$334,000 for training new investigators, vehicles, safety equipment and external resources.

Office of Ombudsman	One Service Analyst and \$73,000
Fraud Division	Two Supervising Fraud Investigators, twelve Fraud Investigators, \$269,000 in overtime costs and \$1.3 million to replace 10 vehicles, hiring and training staff, surveillance equipment, high tech equipment for undercover cases.
Legal Division: (a) Policy Approval Bureau, (b) Corporate Affairs Bureau, (c) Enforcement Bureau, (d) Government Law Bureau, (e) General Legal Division cost	(a) Two Staff Counsel, two Legal Analyst and one Senior Legal Typist, (b) One Staff Counsel and one Legal Analyst, (c) two Staff Counsel, one Legal Analyst and one Senior Legal Typist, (d) one Staff Counsel and one Legal Analyst, (e) \$50,000 for staff training, \$15,000 for out-of-state travel, \$15,000 for in-state travel and \$100,000 for the consultant and professional services budget
Administration Licensing Services Branch (ALSB): (a) Information Technology Branch	(a) One system Software Specialist and \$121,000.

STAFF COMMENT

Associated backlogs are highlighted as the reason for several of the request above. Branches like the Consumer Services Branch have extensive backlogs that if alleviated can help generate funds for the General Fund. The LAO will be conducting a full workload analysis, which will explore whether full-time positions are necessary to alleviate a backlog.

0890 SECRETARY OF STATE

Department Overview. The Secretary of State (SOS), a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and perfecting security agreements. In addition, the SOS is responsible for the appointment of notaries public, enforcement of notary laws, and preservation of documents and records having historical significance. All documents filed are a matter of public record and of historical importance. They are available through prescribed procedures for public review and to certify authenticity.

Budget Overview. The January Governor's Budget provides the SOS with 505 authorized positions and \$161.5 million (\$31.1 million GF). This is a decrease of no positions and \$10.9 million.

ISSUE 1: HELP AMERICA VOTE ACT AMENDED SPENDING PLAN

Governor's Budget. The Secretary of State requests expenditure authority from the Federal Trust Fund (FTF) to continue implementation of the statewide mandates of the Help American Vote Act (HAVA), in excess of \$70 million in 2011-12.

Background. On October 29, 2002 the President signed into law the Help America Vote Act of 2002. This legislation requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. This will be done through the implementation of VoteCal (see Issue 2).

Currently, California has received \$431.5 million, including interest earned to implement mandates affecting the administration of federal elections. The Secretary of State requests annual spending authority to implement several activities including; voter education, voting system testing and election assistance for individuals with disabilities. In 2008, 2009, and 2010 Congress allocated a total of \$31.9 million in new HAVA funding for California. To receive these funds the Secretary of State submitted a revised HAVA State Plan.

Expenditure authority is needed in FY 2011-12, including re-authorization of \$65.9 m from fiscal year 2007-08, for the following activities: voting system upgrade, elections assistance for individuals with disabilities, interim solutions, voting systems-testing/certification, voter education, performance measures and administration. A total of \$3.1 million for State Operations and \$66.9million in Local Assistance is required.

STAFF COMMENT

The Secretary of State is in the midst of HAVA implementations and federal funds are available to continue. Without approval of this request, the HAVA plan will require General Fund appropriation to comply with federal standards.

ISSUE 2: HAVA VOTECAL

Governor's Budget. The Secretary of State requests \$11.6 million in spending authority in 2011-12 in Federal Trust Fund (FTF) to continue the implementation of VoteCal.

Background. The Secretary of State entered into an agreement with the U.S. Department of Justice to replace the existing voter registration database with a state-managed VoteCal database, and remediate the existing county Election Management Systems, in accordance with the Help America Vote Act.

The VoteCal system will serve as the single system for storing and managing the official list of registered voters. The total cost for VoteCal are currently estimated as \$53.4 million. Costs have increased by \$2.3 million as a result of a terminated vendor contract in 2010. When the federal funds are exhausted, the State will be required to support maintenance of VoteCal. Current costs estimate that the State contribution will be necessary by budget year 2022-23.

1110 DEPARTMENT OF CONSUMER AFFAIRS**ISSUE 1: BOARD OF ACCOUNTANCY: ENFORCEMENT DIVISION STAFFING AUGMENTATION**

Governor's Budget. The California Board of Accountancy (CBA) requests position authority for 2.5 Associate Governmental Program Analysts positions, with costs covered by redirecting existing expenditure authority.

Background. The CBA enforces activities and completes investigations to protect consumers, within the 12 to 18 month period mandated by the Department of Consumer Affairs and Business and Professions Code.

STAFF COMMENT

This proposal is cost-neutral. The Board will redirect current funding authority within the Enforcement Program. Additional workspace will be necessary, but the Board will work with the property owner to renegotiate the facility lease and use existing resources to do this.

ISSUE 2: BOARD OF ACCOUNTANCY: PEER REVIEW PROGRAM

Governor's Budget. The California Board of Accountancy (CBA) requests position authority for one ongoing Office Technician (OT), to address workload in the Board's Peer Review Program.

Background. AB 138 (Chapter 312, Statutes of 2010) established the Peer Review Program. The program is responsible for reviewing accounting firms providing accounting and auditing services every three years, commencing January 1, 2010 and the first reports due July 1, 2011.

STAFF COMMENT

This position will be added within existing resources. The CBD is expecting approximately 6,000 accounting firms to undergo a peer review –about 2,000 annually. The OT position will help with multiple duties including, processing forms and notifications to newly licensed CPA's. The program sunsets January 1, 2014, but the Board anticipates they will seek sunset repeal.

Concerns over the Boards reliance on hardcopy reporting's and mailings have been raised. The Board may want to consider changing to a paperless process in the future.

ISSUE 3: BOARD OF OPTOMETRY: SERVICE MANAGER POSITION

Governor's Budget. The Board of Optometry requests one ongoing Staff Services Manager position.

Background. The position will be funded through redirecting operating expenses and equipment funds. The Service Manager will supervise the Board's enforcement, fingerprinting and probation monitoring programs, as well as assist with oversight of the administration and licensing programs, provide continual evaluation of Board programs, monitor performance measures, staff training, and performance.

1111 DEPARTMENT OF CONSUMER AFFAIRS, BUREAUS, PROGRAMS AND DIVISIONS

ISSUE 1: BREEZE FUNDING REALIGNMENT

Governor's Budget. The Governor's budget proposes to realign existing BreEZe funding authority by \$1.2 million (one-time) in FY 2011-12 to support payment solution provision changes for a new enforcement and licensing solution.

Background. The BreEZe program was approved by the Legislature in the 2010-11 Budget. BreEZe will bring all 40 business and professional licensing entities under the Department of Consumer Affairs into an integrated licensing and enforcement system.

The additional \$1.2 million authority was previously approved in the 2009-10 and 2010-11 Budgets. Original funding authority for this project included a unique payment provision that provided up to \$250,000 to be paid to each of the three bidders in the procurement project. Following the release of the 2010-11 Budget the California Technology Agency and the Department of General Services concluded that this was not in the best interest of the State. A proposed alternative is being proposed and \$1.2 million in re-appropriation is needed for implementation.

The alternative includes payment for the solution software following installation of the software on State equipment, and the State's acceptance of the detailed solution design. It also includes a \$3 per transaction fee incurred by boards and bureaus, as the primary payment vehicle due to its unequalled protection for the State in the event of a non-performing contractor.

The augmentation would appropriate a total of \$3.5 million in FY 2011-12 (previously approved at \$2.3). Overall project cost have not increased, this simply aggregates funding approved in prior years for the implementation of BreEZe.

STAFF COMMENT

DCA is funded entirely by business and professional licensing fees. Realignment of these funds is necessary to move procurement forward. Should the payment model remain under the original model, the State runs the risk of bidders not submitting a final proposal and the \$1.4 million spent thus far would be jeopardized.

**ISSUE 2: BUREAU OF AUTOMOTIVE REPAIR: AB 787 VEHICLE RETIREMENT
AND REPAIR**

Governor's Budget. The Bureau of Automotive Repair (BAR) requests a special fund augmentation of \$22.2 million and 12.3 positions in FY 2011-12 for the implementation of AB 787 (Chapter 231, Statutes of 2010). BAR also proposes to reduce the appropriation of the High Polluter Repair or Removal Account (HPRRA) by \$7.7 million and 8 positions annually.

Background. AB 787 requires BAR to offer \$1,500 to all qualified low-income eligible consumers applying to retire a vehicle. AB 787 also eliminated the provision in statute that allowed qualified owners of directed vehicles to receive financial assistance toward smog check-related repairs. This change made the High Polluter Repair or Removal Account (HPRRA) null and thus a reduction in funding and positions is necessary.

The proposed 12.3 positions requested will be added to the Enhanced Fleet Modernization Subaccount (EFMS), to carry out duties under AB 787. These duties include, application processing, invoicing, operating a call center, file management, mail support and audits.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**ISSUE 1: COMMUNITY DEVELOPMENT BLOCK GRANT**

Governor's Budget. The Department of Housing and Community Development requests a shift of \$1.1 million in State Operations to the Local Assistance federal budget authority and a reduction of 10 positions for the Community Development Block Grant program (CDBG).

Background. The CDBG program serves California's 168 non-entitlement jurisdictions. The Federal CDBG program exist to serve communities who have difficulty in finding private or local public funding for critical community development activities. The State CDBG program was created to help California's non-entitlement jurisdictions, which are smaller communities (many of which are rural and economically distressed) access federal funds. For 28 years, the State's CDBG program has acted as an oversight to these communities by helping them receive grant funding, monitor funds and meeting requirements to protect against fraud.

Since 2007, the Department of Housing and Community Development budget switched the \$1.1 million general fund contribution to pay for administrative positions to federal funds. The federal government has since raised an issue with using federal funds, above the 3 percent allowed in the CDBG grant.

The Department must now correct the federally allowable administrative costs in order to comply with federal grant requirements. This change will result in a 30 percent decrease (\$1.1 million) in funds available for program administration, which translates to 10 positions. Given the State's economic crisis, the Department is seeking a reduction in workload instead of reverting back to general fund contributions to pay for these positions.

Department Solution. The Department will reduce the number of awards for the Planning and Technician Assistance (PTA) and Enterprise Fund categories of the CDBG program and decrease the number of awards in the CDBG General portion of the program by increasing the average award. This will be done by raising the application limit and offering one Notice of Funding Availability (NOFA) offer, instead of 6. This will mean fewer jurisdictions will receive CDBG funding each year.

STAFF COMMENT

The Subcommittee may want to further consider the impact of reducing the number of awards and issuing one NOFA instead of six.

ISSUE 2: BOND SALE PAUSE AND BBL

Governor's Budget. The Governor's Budget proposes a one-time pause in the issuance of state bonds for new loans and grants for general obligation bond funded programs. This proposal would not affect projects that are already underway, but would impact new loans and grants by potentially delaying them for four to five months. The Administration is proposing this pause to allow time for further analysis of bond sales, the overall bonding capacity and debt service obligations, as well as to prioritize the allocation of bond resources. This pause will save an estimated \$248 million in GF interest costs.

For HCD, the Administration is proposing a decrease of \$99 million (special fund) in new loans and grants in 2011-12, which would be administered by HCD. Budget Bill Language reinforces the pause for all HCD programs in fiscal year 2011-12.

Background. The 2010-11 Budget included several appropriations of Proposition 1C Housing and Emergency Shelter Trust Fund Act of 2006, including: (1) \$20 million for the Housing Related Parks Program; (2) \$5 million for the Building Equity and Growth in Neighborhoods Program; and (3) \$9.275 million in remaining Infill Incentive Grant Program funds.

Current Cash Balance. Current General Obligation bond cash balance is sufficient to fund ongoing projects through December 2011, as well as new allocations through June 2011 and subsequent cash needs through December 2011. However, for every other department except HCD new project allocations will resume in the fall bond sale. The Administration's proposal suspends new loans and grants for housing projects in 2011-12.

This would affect the following programs which have a remaining fund balance:

Program	Amount left (dollars in millions)
CalHome	\$74
Self-help Housing	\$3
EHAP-CD	\$19
Transit Oriented Development	\$18
Housing Related Parks	\$161
CalHFA Programs	\$46
Homeownership programs	\$22

STAFF COMMENT

The spring bond sale pause can delay jobs/economic development benefits of bond-funded projects, but most departments will be able to proceed in the Fall. As of December 2010, the State Treasurer estimated that the state had about \$13 billion in bond proceeds that still had not been spent. HCD however, will receive no bond sale authority in the 2011-12 fiscal year.

The Department of Finance, has informed staff that this one-time pause is not a policy message. Instead, given the time-frame further analysis of bond sales and priorities has yet to take place. However, when bond sales resume in the fall of 2011, housing grants will be stalled. Given this, the Subcommittee may wish to act to ensure that housing bonds are given an equal ability to be allocated in 2011-12 by amending budget bill language.

Questions:

1. DOF: What other Departments have a Spring and Fall bond sale pause?
2. Department: Of the programs with remaining funds above, what types of projects could be funded?

2320 DEPARTMENT OF REAL ESTATE

ISSUE 1: SB 36 MORTGAGE LOAN ORIGINATOR LICENSURE

Governor's Budget. The Department of Real Estate (DRE) is requesting an augmentation of 2 additional positions and \$216,000 in 2011-12 to address workload associated with SB 36.

Background. SB 36 enacted in 2010 brings California in compliance with the requirements of the federal 2008 SAFE Act. Each state is required to have a system in place to license and regulate mortgage loan originators.

Additional workload requires DRE to validate information provided to the Nationwide Mortgage Licensing System against its existing licensing database, develop a mechanism to track changes made in both systems, review special Call Reports and Business Activities Reports for at least 6,133 businesses on an annual basis, consider credit report information, expand its criminal background checks, report violations to other jurisdictions, and issue new mortgage loan originators endorsements to qualified individuals in California.

To address the workload DRE submitted a 2010/11 BCP requesting 120 positions, but the Legislature approved 27 positions and \$500,000 in start-up fees. This 2011/12 BCP request 2 additional positions and \$216,000. The Department recognizes that the workload will require additional positions beyond the two requested in this BCP, and notes that it will do so in a Spring Finance Letter.

STAFF COMMENT

The Department can only accommodate two additional positions in their current office facility; however these additional positions do not address the workload adjustments that are necessary. The Subcommittee will likely hear this same proposal to address SB 36 workload through a Spring Finance Letter. Additional positions, IT costs and a request to move their headquarters can be anticipated.

ITEM 0840 STATE CONTROLLER'S OFFICE

The State Controller is the Chief Fiscal Officer of California. As a separately established constitutional office, the State Controller's Office (SCO) provides fiscal control for, and independent oversight of, more than \$100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments and its audit functions uncover fraud and abuse of taxpayer dollars.

State Controller's Office

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$170.2 million	\$218.9 million	\$218.9 million
Personnel Years	1,249.4	1,414.0	1,415.9

The continuation in 2011-12 for the increase in funding received initially in the 2010-11 fiscal year is largely related the ramp-up of outlays for the 21st Century Project. This project was discussed in the Subcommittee's hearing on state technology projects on January 24, 2011. At that meeting, the Subcommittee approved continued funding for the project.

ISSUE 1: WOMEN, INFANTS AND CHILDREN (WIC) AUDITS

The Governor's Budget requests reimbursement authority of \$1.1 million and 6.3 positions in 2010-11, and \$18 million and 12.6 positions in 2011-12 in order to fund additional auditors for the California Department of Public Health (CDPH) Woman, Infants and Children (WIC) Program. According to the SCO, the current benefit/cost ratio of 2:1 is below the ratio that prevails in other audits performed by the Department. Nevertheless, the audit activity at the level performed by the SCO meets the minimum level of audit activity as required by the US Department of Agriculture for state participation in the program. This federal audit standard was recently changed to require that CDPH audit at least 5 percent of WIC vendors and providers each year. SCO does not anticipate any delays in the hiring of qualified individuals for these limited-term positions.

Staff raises no concerns with this proposal.

ISSUE 2: UNCLAIMED PROPERTY ACCOUNTING WORKLOAD

The Governor's Budget requests \$293,000 from the Unclaimed Property Fund for 1 permanent and 3.1 two-year limited-term positions in 2011-12. The 2012-13 amount would be \$281,000 and by 2013-14, the amount would drop to \$68,000 for the 1 permanent position. Under current law, the SCO is responsible for safeguarding unclaimed property until it is reunited to the rightful owner. In recent years, there have been legislative and systems changes which increase the workload in the areas of financial accountability, corporate actions, and the collection of securities. The goal of the program and the resource enhancement is to expedite the return of property to owners by increasing the ability of the SCO to preserve the integrity of the ownership trail. This will be accomplished by calling in shares that are held outside of SCO so the securities and mutual funds can be returned to owners or sold as required by law. The resources requested in this proposal would allow the SCO to maintain stock and mutual fund accounts, ensure compliance with the Unclaimed Property Law, and decrease the timeframe in which owners are reunited with their property.

Staff raises no concerns with this proposal.

ISSUE 3: 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. In general, such cases are 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 SCO's original request involved ongoing funding for outside representation. Recent information indicates that the AG's office can handle more of the cases than originally anticipated. In addition, the SCO indicates that the Legislature has taken actions (pursuant to the adoption of SB 86 in 2007) that will greatly reduce the number of lawsuits. The SCO further indicates that the additional funding may only be required to "work down" the existing inventory of cases and that further clarity would be available in two years.

The original request indicated that there were 14 outstanding cases of this nature and the AG's office was able to handle 8 of these, with outside counsel assigned the remaining 6. More recent information indicates that there are 24 outstanding cases and the AG is prepared to provide legal representation for 22 of them.

The Subcommittee may want to get clarity from the SCO regarding the number of cases and the availability of AG representational resources before approving permanent or temporary funding for this activity.

ISSUE 4: ELECTRONIC CLAIM AUDITS

The Governor's Budget requests 4.2 positions and \$462,000 in reimbursement authority for two years beginning in 2011-12 for processing electronic claims. Under the California Constitution and by statute, the SCO is required to superintend the fiscal concerns of the state, to audit disbursement of funds, and to withhold payment of any claim until it has been audited in conformity with applicable laws, rules and regulations. In 2009-10, \$14.2 million in audit exceptions were uncovered by 19.2 audit staff. This request is estimated to result in \$3 million in audit exceptions and potential savings. Examples of existing claims include Franchise Tax Board's income tax refunds, Department of Personnel Administration's "FlexElect" payments, and California Student Aid Commission's Cal Grant payments.

COMMENTS

The SCO indicates that in prior years, the number of claims auditors was reduced in anticipation of additional electronic claims, but when the e-claims did not materialize as expected, audit resources were not restored. The Subcommittee may want to pursue the issue as to whether additional audit resources (in addition to the request under consideration) would generate additional savings to the state

ISSUE 5: FEDERAL OIL AND GAS AUDITS

The Governor's Budget requests 2 permanent positions and \$314,000 in federal funds support to perform audits to ensure royalties are correctly reported and paid by oil and gas, geothermal resources and solid minerals companies producing and selling energy resources from federal leases in California. The federal government increased the audit contract from \$650,000 to \$1.1 million and this additional authority will reconcile the funding level with the contract amount. California receives a percentage of the royalty income from offshore and onshore federal leases located within its borders. Under statute, most of the funds go to counties and local education. The SCO reports that the resources will generate \$5 million in revenues.

Staff raises no concerns with this proposal.

ISSUE 6: CALIFORNIA AUTOMATED TRAVEL EXPENSE REIMBURSEMENT SYSTEM (CALATERS)

The Governor's Budget requests an increase of \$524,000 in reimbursement authority in 2011-12 and \$702,000 in 2012-13 and ongoing to fully support the cost of administering the CalATERS system. CalATERS was developed by the SCO in 2000 as a centralized automated system for travel and advances and expense reimbursements formerly processed by individual departments and agencies. The cost of administering the system and the number of agencies using the system has increased over the years, especially after the Legislature mandated that all state agencies use the system by 2009. An increase in reimbursement authority will enable the SCO to recover program costs from agencies.

Staff raises no concerns with this proposal.

ISSUE 7: AIRPORT CUSTOMER FACILITY FEE AUDITS

The Governor's Budget requests 1 position and \$140,000 in reimbursement authority for 2010-11 and \$134,000 for 2011-12 to conduct mandated independent audits of airport customer facility fees charged to airport car renters as a result of legislation enacted in SB 1192 in 2010. The SCO Division of Audits does not currently have any program or activity related to the customer facility fee or to airports or airport authorities in general. The authority to collect the customer facility fee began in 1999 with special approval for such collection granted to international airports at San Jose, San Francisco and San Diego. The Legislature expanded this to other public airports in 2001 and 2007. Under the program, each airport is required to complete an independent audit to ensure the aggregate amount of fee revenue does not exceed the reasonable costs paid by the airport to finance the design and construction of consolidated car rental facilities and common-use transportation systems. In 2010, the Legislature required that SCO review the audits and independently examine and substantiate the necessity of the customer facility fee. Thus, the audits will ensure that the fee (not to exceed \$10 per contract) charged to airport car renters is not excessive. This activity represents new workload for the SCO.

Staff raises no concerns with this proposal.

ITEM 2150 DEPARTMENT OF FINANCIAL INSTITUTIONS

The mission of the California Department of Financial Institutions (DFI) is to promote the integrity and stability of California's financial services system through the regulation and supervision of financial institutions that are either required to be licensed by the state or that choose a state license.

Department of Financial Institutions

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$29.4 million	\$33.0 million	\$35.1 million
Personnel Years	265.3	247.5	250.2

ISSUE 1: PROBLEM LICENSEES: BANKING EXAMINATION AND CONSUMER SERVICES IMPACT

The Governor's Budget requests the conversion of four limited term positions to permanent status. This request is due to continued increase in workload as a result of a substantial increase in the number of banks in less than satisfactory condition. The deterioration of bank conditions is largely related to the severe economic downturn and the continued repercussions of declines in asset values. There is also a request for additional funding of \$325,000 and an additional 3 positions to address resolution of financial difficulties experienced by borrowers through loan modifications. Positions and resources for DFI are from non-General Fund sources.

The positions included in the position conversion relate to the DFI's banking program. This program ensures state-chartered banks are safe and in sound financial condition. The positions affected are 4 senior financial institutions examiners. These two-year limited-term positions were funded for 2009-10 and 2010-11. DFI indicates that the workload for these positions has continued as a result of continued stress in the asset markets. By continuing the funding for these positions, DFI will benefit from the training it provided during the two-year period.

The request for new positions is for DFI's activities related to responding to the increasing number and complexity of consumer complaints and inquiries. The request is for 2 associate government program analysts and 1 office technician, along with a request for \$50,000 in contract funding for maintaining the consumer database.

COMMENTS

DFI has amply demonstrated the need for continued funding for the senior financial institutions examiners. These positions are critical in safe-guarding the network of state-chartered financial institutions, it would be unfortunate if these state were not able to receive continued benefit from these now-trained examiners. The argument for the consumer services component is less compelling. The activity, while import, is less vital in terms of institutional integrity. Nevertheless, DFI has demonstrated the importance of conveying accurate information on a timely basis to troubled consumers

ITEM 0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The California Tax Credit Allocation Committee (CTCAC) allocates federal and state tax credits used to create and maintain affordable rental housing for low income households in the state by forming partnerships with developers, investors and public agencies. CTCAC works with public and private entities to assist with project development and also monitors project compliance. CTCAC consist of seven members from state and local governments, with the State Treasurer serving as chair.

California Tax Credit Allocation Committee

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$810.2 million	\$4.8 million	\$5.2 million
Personnel Years	31.6	35.0	37.0

ISSUE 1: COMPLIANCE MONITORING STAFF FOR HUD TENANT REPORTING AND ARRA ASSET MANAGEMENT

The STO requests two positions and contract funding totaling \$282,000 for the California Tax Credit Allocation Committee for HUD Tenant Data Reporting as required by the Housing and Economic Recovery Act of 2008 and Asset Management as required by the American Recovery and Reinvestment Act of 2009. Funds will be based on establishing and collecting fees associated with the allocation of tax credits and will not impact the General Fund. The contract funding of \$50,000 will provide coverage of the federally-required activities until staff is hired and trained.

Staff raises no concerns with this proposal.

ITEM 0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) was established in 1980 to promote prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources. The intent of the legislation establishing the authority was to promote energy sources designed to reduce the degradation of the environment. The authority later was expanded to include development and commercialization of advanced transportation technologies. CAEATFA consists of five members and is chaired by the State Treasurer.

California Alternative Energy and Advanced Transportation Financing Authority

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$276,000	\$16.7 million	\$25.8 million
Personnel Years	1.0	7.0	7.0

ISSUE 1: IMPLEMENTATION OF CALIFORNIA ENERGY COMMISSION PROGRAMS

The Governor's 2011-12 budget for CAEATFA includes reimbursement expenditure authority of \$9 million to implement the California Energy Commission's (CEC's) California Ethanol Producer Incentive Program under the Alternative and Renewable Fuel and Vehicle Technology Program as authorized by AB 118 adopted in 2007. AB 118 authorizes the CEC to provide incentives of up to \$100 million annually for the development and deployment of clean, efficient, and low-carbon alternative fuels and technologies. AB 118 also provides up to \$50 million per year for the Air Quality Improvement Program administered by the Air Resources Board. The programs funded under AB 118 are supported primarily by various vehicle-related fees. CAEATFA's role in implementing AB 118 is to facilitate and execute disbursement of AB 118 moneys through its financing mechanisms to selected facilities that use alternative energy sources and technologies, and/or that develop and commercialize advanced transportation

The Legislature has expressed a great deal of interest in the AB 118 program administered by CEC, and as such, has statutorily required that the CEC annually submit an AB 118 Investment Plan to the Legislature. This requirement is designed to improve the Legislature's oversight of the AB 118 program. The draft Investment Plan is to be submitted to the Legislature by March. Once the plan has been submitted, the Legislature should have adequate opportunity to provide its policy direction in this area. Without the plan, the Legislature will not be able to evaluate the proposed \$9 million

ethanol-related to see whether the budget request aligns with legislative priorities for AB 118 funding.

LAO Recommendation. Until the 2011-12 Investment Plan has been submitted to the Legislature for its review, LAO observes that it is premature to approve the requested reimbursement expenditure authority in CAEATFA. LAO therefore recommends that the Legislature deny, without prejudice, the budget request, until such time as the draft investment plan has been submitted to the Legislature and the Legislature has had adequate time for its review.

ISSUE 2: PROPERTY ASSESSED CLEAN ENERGY PROGRAM

The Governor's Budget for CAEATFA includes \$15 million from the Renewable Resource Trust Fund (pursuant to a continuous appropriation authority granted in 2010 legislation, discussed below) to provide a loan loss reserve to support the implementation of local public agencies' and utility districts' Property Assessed Clean Energy (PACE) programs. PACE programs provide up-front financing for renewable and energy efficiency-related upgrades to properties. Through PACE, property owners may install solar or other renewable energy-generating devices or make water or energy efficiency improvements to their properties through funds borrowed from participating local governments. Loans are repaid by the property owner over 20 years via an annual assessment on the owner's property tax bill. The assessment remains on the property even if it is sold or transferred. The added property tax assessments may be offset by energy savings resulting from the retrofit.

SB 77 adopted in 2010 established a State-Financed Loan Loss Reserve at CAEATFA for PACE Bonds Chapter that 15 provides a way to lower the costs to local governments and property owners in the financing of PACE bonds by allowing CAEATFA to purchase locally-issued PACE bonds and then pool them before going to the market. The loan repayments from the property owners are dedicated by the local governments to the repayment of the bonds. The PACE Reserve program provides a 10 percent reserve cushion that can be used for payments in the event of defaults. Chapter 15 appropriates up to \$50 million from the Renewable Resource Trust Fund until December 31, 2014 for the Reserve program.

Since PACE loans acquire a priority lien over existing mortgages, the Federal Housing Financing Agency (FHFA) and the U.S. Treasury Department Office of the Comptroller of the Currency determined that PACE programs present significant safety and soundness concerns that must be addressed by Fannie Mae, Freddie Mac, and the Federal Home Loan Bank. According to FHFA, first liens established by PACE loans are unlike routine tax assessments and may pose unusual and difficult risk management challenges for lenders, servicers and mortgage securities investors. As a result of this, FHFA issued a directive to the federal residential lending agencies that has basically halted the operation of residential PACE programs. Various California-based interests—including the State of California, Sonoma and Placer Counties, and the City of Palm Desert—have filed suit in federal court to overturn the FHFA's directive. Until there is a legal resolution in this matter, California's PACE programs (which primarily relate to residential properties) are largely on hold.

LAO Recommendation. LAO indicates that there is too much uncertainty surrounding these programs' operational status to warrant at this time the transfer of state monies that the budget includes to fund the PACE loan loss reserve. LAO recommends the Legislature reverse, without prejudice, the included transfer, pending legal resolution of the issue that has put PACE programs on hold.

COMMENTS

CAEATFA indicates that the funding shift would provide needed flexibility including the ability to explore the feasibility of commercial property program. While this may be a future avenue for activity, at this point it appears that it is in the planning stages and that allowing for additional legal clarity before funding action would be prudent. Denying the request at this time and revisiting the issue once the landscape is clearer would not interfere with the functioning of the program.