

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember George Nakano, Chair

**WEDNESDAY MAY 23, 2002
STATE CAPITOL, ROOM 437
UPON CALL OF THE CHAIR**

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CONSENT CALENDER**CONTROL SECTION 12.00**

State Appropriations Limit. Reduce by \$1,000 to put this item before the Conference Committee so that it can be adjusted to reflect final appropriations contained in the budget. This is done each year and is generally the last item address by the Conference Committee.

CONTROL SECTION 11.10

Reporting of Statewide Software License Agreements It is requested that Control Section 11.10 be added, relating to the reporting of statewide software license agreements. This new control section would establish a process for the review and approval of future statewide software license purchases. DOF would be required to notify the Legislature prior to a department entering into or amending a statewide software license agreement not previously approved by the Legislature. This includes an agreement whether or not the obligation will result in a net expenditure or savings. Departments would be required to prepare the appropriate business proposal for submission to DOF and DOIT for review.

ITEM 1920 STATE TEACHERS' RETIREMENT SYSTEM

Finance Letter: Teale Data Center Costs- Increase of \$7,270,000 from special funds to support: increased data processing costs related to the increase in the start program; increased costs associated with the implementation of AB 2700 that calculates credits to the Defined Benefit Supplemental Program; and the increased cost of the implementation of AB 1509 (Defined Benefit Supplemental Program.)

ITEM 5240 DEPARTMENT OF CORRECTIONS

May Revision: Special Counseling Beds- Decrease of \$619,000 from the General Fund and a redirection of \$1,258,000 and 17 positions from General Population resources to provide 100 additional Special Counseling Beds.

May Revision: Statewide Capital Outlay- Decrease of \$2,000,000 from the General Fund to reflect savinigs from Minor capital outlay projects.

ITEMS TO BE HEARD

ITEM 0160 LEGISLATIVE COUNSEL

Additional Litigation Funding. \$2 million augmentation is needed for the Legislative Counsel for increased litigation costs associated with reapportionment litigation.

ITEM 8350 DEPARTMENT OF INDUSTRIAL RELATIONS

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California, improve working conditions, and advance opportunities for profitable employment. The Department works toward this objective by enforcing workers' compensation insurance laws and adjudicating workers' compensation insurance claims, working to prevent industrial injuries and deaths, promulgating and enforcing laws relating to wages, hours, and conditions of employment, promoting apprenticeship and other on-the-job training, assisting in negotiations with parties in dispute when a work stoppage is threatened, and by analyzing and disseminating statistics which measure the conditions of labor in the State.

ISSUE 1: IMPLEMENTATION OF AB 749 (CALDERON)

Earlier this year, the Governor signed AB 749 (Calderon). The bill makes various changes in the workers' compensation law intended to reduce program costs and increase benefits.

The May Revision proposals include:

- Increase the Commission on Health and Safety in Workers' Compensation's (CHSWC) funding from the Workers Compensation Administration Revolving Fund. AB 749 earmarked these revenues for the CHSWC.
- Eliminate the certification program (effective January 1, 2003). AB 749 includes a provision that eliminates this Program.

Open issues concerning the implementation of AB 749:

- AB 749 requires the department to increase investigations in employer and insurer fraud.
- AB 749 requires the CHSWC to complete three studies of cost-saving measures contained in the bill. These studies evaluate and monitor the improvements to the health and safety and workers' compensation system.
- AB 749 AB 749 requires the department to provide health and safety training grants in hazardous industries.
- To be successful, the reforms contained in AB 749 must be implemented. It's estimated that about 62 new positions are needed to meet the requirements of this legislation.

Suggested funding for implementation of AB 749:

1. Appropriate \$1.0 million (General Fund) for increased fraud and illegal un-insurance prevention activities.

2. Appropriate \$536,000 (General Fund) and \$134,000 (Workers Compensation Administration Revolving Fund- WCARF) to begin the studies mandated by AB 749. A similar appropriation will be necessary in 2003-04.
3. Appropriate \$3.68 million (General Fund) and \$920,000 (WCARF) to staff the Division of Workers' Compensation.
4. Appropriate \$588,000 (Workers Compensation Occupational Safety and Health Education Fund pursuant to AB 749 for health and safety training grants for workers and an ombudsman program for employers. Of this amount, \$163,000 would be for staffing and \$425,000 would be for contracts in 2002-03. The staff needed would be 1 Staff Services Manager II, 1 Staff Services Manager I, 1 Associate Governmental Program Analyst, and 1 Office Technician.

ITEM 8350 DEPARTMENT OF INDUSTRIAL RELATIONS**ISSUE 2: INDUSTRIAL WELFARE COMMISSION**

According to the department, the IWC's primary responsibility is to set the minimum wage. In addition, DIR says that the commission:

- Is the only entity devoted to the specific mission of ascertaining "the hours, and conditions of labor and employment in the various occupations, trades and industries in which employees are employed in the state, and to investigate the health, safety and welfare of those employees"
- Provides interested parties a simple venue to petition for changes, exemptions, amendments, and/or deletions to regulations under the jurisdiction of the IWC. A petition is a letter to the commission and must be acted upon by the Commission within 120 days.

By requiring the annual adjustment of the minimum wage, the IWC's primary responsibility is made redundant. The commission's other underlying responsibilities can be assumed by the department itself.

The Senate Sub-Committee #3 eliminated the IWC, its \$617,000 General Fund appropriation and adopted the following trailer bill language:

Section 1182.10 is added to the Labor Code, to read:

- (a) The minimum wage is automatically adjusted on January 1 of each year.*
- (b) The automatically adjusted minimum wage is calculated by multiplying the minimum wage in effect on December 31 by the percentage of inflation that occurred during the previous year, and rounding off the sum to the nearest five cents (\$0.05). The Department of Industrial Relations shall publicize the automatically adjusted minimum wage.*
- (c) For purposes of this calculation, the following terms have the following meanings:*
 - (1) "Percentage of inflation" means the percentage of inflation specified in the federal Consumer Price Index for urban wage earners and clerical workers, as published by the United States Department of Labor, or its successor index.*
 - (2) "Previous year" means the 12-month period that ends September 1 of the calendar year prior to the adjustment.*
- (d) The first automatic adjustment to the minimum wage shall occur on January 1, 2003.*

ITEM 0890 SECRETARY OF STATE

ISSUE 1: STATE MANDATED LOCAL PROGRAMS

The Governor's May Revision requested a reduction of \$8.27 million for the mandated programs (Absentee Ballots, Voter Registration Procedures, and Permanent Absentee Voter) within this item for which funding was provided in the Governors Budget.

ITEM 2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY**ISSUE 1: SMALL BUSINESS DEVELOPMENT CORPORATIONS**

It is proposed to create a Small Business Development Corporation in Southeast Los Angeles with \$1,000,000 from the Small Business Expansion Fund. There is a substantial gap in addressing the financial needs of these communities.

It is also proposed that the following budget bill language be adopted:

2920-011-0001

Of the amount allocated in Schedule 1 of this item, \$1,000,000 is for the establishment of the Small Business Financial Development Corporation in Southeast Los Angeles, pursuant to Chapter 674, Statute of 2001.

ITEMS 0968, 0974 California Tax Credit Allocation Committee and California Pollution Control Financing Authority

ISSUE 1: LOANS TO THE GENERAL FUND

May Revision Increases Loan Amounts by \$20 million

The Governor's budget proposed loans to the General Fund totaling \$60 million from two state financing entities. The May Revision proposes increasing the amount of these loans to \$80 million as follows:

- **Tax Credit Allocation Committee--\$55 million.** The committee allocates state tax credits for low-income housing development. The May Revision proposes increasing the \$20 million loan from the Occupancy Compliance Monitoring Account (which funds ongoing monitoring of each housing project) by \$10 million to a total of \$30 million. Also, the May Revision would increase the \$20 million loan from the Tax Credit Allocation Fee Account by \$5 million—to a total of \$25 million.
- **Pollution Control Financing Authority--\$25 million.** The May Revision proposes increasing the \$20 million loan to the General Fund from the Pollution Control Financing Authority Fund by \$5 million—to a total of \$25 million. The authority issues revenue bonds to finance private pollution control and resource recovery projects.

Repayment Timeline Language. The subcommittee previously heard these loan proposals on March 12th but deferred action pending further discussion of between the financing entities and the Department of Finance on language defining the terms of the loans. The May Revision includes revised budget bill language specifying that the loans shall be fully repaid by October 1, 2004, and authorizing earlier repayment if necessary to meet a documented need to comply with state or federal statutes or other requirements.

The Governor's Budget also proposes Trailer Bill language providing general authorization for proposed special fund loans to the General Fund.

COMMENTS:

The subcommittee has approved a May Revision request to eliminate a \$20 million loan to the General Fund by the Restitution Fund in the Victims' Compensation and Government Claims Board's budget. The loan increases in this issue compensate for the elimination of the Restitution Fund loan.

ITEM 0974 CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY**ISSUE 1: BROWNFIELDS ASSESSMENT AND CLEANUP**

The LAO raised several issues concerning the coordination of programs to facilitate the redevelopment of "brownfield" sites operated by the California Pollution Control Financing Authority (CPCFA) and by the Department of Toxic Substances Control (DTSC). The subcommittee previously heard this issue on March 12th and deferred action pending Subcommittee 3 hearing the DTSC budget and further discussions between the LAO, CPCFA and DTSC regarding the best way to coordinate the roles of the two agencies. The LAO and the two agencies have developed the following Supplemental Report Language to provide the Legislature with information about their coordination efforts:

On or before March 1, 2003, the California Pollution Financing Authority (CPCFA) and the Department of Toxic Substances Control (DTSC) shall report to the Chair of the Joint Legislative Budget Committee and the chairs of the budget committees of both houses on their efforts to coordinate their respective brownfield financing programs, to identify any obstacles the brownfield financing programs may pose to each other or synergies they may create for one another, and the results of their efforts to effectively target and maximize the investment of State resources for site assessment, cleanup and redevelopment of brownfield properties.

COMMENTS:

The LAO also had identified a potential for using \$5 million of CPCFA funds for DTSC brownfields cleanup projects in 2002-03. However, the May Revision uses these CPCFA funds to increase the loan to the General Fund (as discussed in the previous issue).

TRAILER BILL LANGUAGE : TOBACCO SETTLEMENT SECURITIZATION

ISSUE 1: MAY REVISION—TOBACCO SECURITIZATION

The Governor's Budget proposed securitizing a portion of the state's Tobacco Settlement Revenues for 22 years in order to sell \$2.4 billion of bonds, the proceeds of which would be deposited in the General Fund. The May Revision proposes to increase the bond sale to \$4.5 billion in order to help address the state's \$23.6 billion budget gap caused by the precipitous significant decline in stock-market-related revenues.

Increasing the bond sale to \$4.5 billion will require securitizing essentially all of the state's tobacco settlement revenues (approximately \$400 million to \$500 million annually).

The May Revision estimates that half of the bonds will be sold in January 2003 and the remaining half in April 2003. Because interest and principal payments on the bonds will not commence until 2003-04, there will be no impact on the resources available in the Tobacco Settlement Fund for health care programs in the budget year.

ITEM 0950 STATE TREASURER**ISSUE 1: TOBACCO SECURITIZATION STAFFING**

The Governor's budget includes \$220,000 in 2002-03 for two new permanent positions to implement and manage the Tobacco Securitization Bond Program. The Treasurer's Office indicates that these permanent positions are needed because of the complex nature of the tobacco securitization bond sales and the ongoing need to manage variable rate debt that may be sold under the program.

LAO Recommends Denying the Positions. The LAO has questioned the workload justification for the positions and whether they can be hired in time to assist in the bond sale.

LAO Also Questions Need for Permanent Positions. Regarding the need for ongoing positions associated with the tobacco bond program, the main justification offered by the Treasurer's office is increased workload associated with management of variable rate debt. However, LAO believes that it is unlikely that variable rate debt could be used for this type of issue, given the uncertainties that variable interest rates would add to calculations involving annual payments and reserve requirements needed to secure tobacco-related bonds. Even if variable rate debt were issued, however, LAO believes that the added ongoing workload could be accommodated within the office's existing budget, given that four new permanent positions were authorized this year for management of variable rate debt.

COMMENTS:

The May Revision delays the Tobacco Securitization Bond sales until 2003, so there may be time to hire additional staff to assist in the sale, and the proposed bond sale is about twice as large as proposed in January.

Given the many uncertainties regarding the ultimate structure of the tobacco bonds, the need for permanent position is not clear. The Treasurer's Office should explain why permanent positions are needed, and why limited-term positions would not be more appropriate.

ITEM 0954 SCHOLARSHARE INVESTMENT BOARD

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

Governor's Scholarship Programs. The board also maintains the scholarship investment accounts for the Governor's Scholars Program, established by SB 1688 (Polanco), Chapter 404, Statutes of 2000. This program awards \$1,000 scholarships, without regard to need, to each public high school student who demonstrates high academic achievement on the STAR test. The Governor's Distinguished Mathematics and Science Scholars Program awards \$2,500 scholarships, without regard to need, to students who win a Governor's Scholars Award and also demonstrate high achievement in math and science by achieving specified scores on Advanced Placement, Golden State, or International Baccalaureate examinations. The General Fund funds these programs.

- The subcommittee previously heard this budget on April 23rd and held the issues open.

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

May Revision Estimate Change. The May Revision requests a reduction of \$8 million—leaving funding of \$6 million in the program for 2002-03 to provide \$2,500 scholarships to an estimated 2,400 qualifying students.

LAO Recommends Elimination of Program

LAO recommends elimination of this program for a General Fund savings of \$6 million. LAO questions whether the program's effectiveness in achieving its stated intent—encouraging high school students to pursue rigorous course work leading to careers in scientific fields. LAO argues that the likeliest scholarship recipients already are highly motivated and represent approximately the top seven-tenths of 1 percent of the state's high school students. These students generally receive other scholarships from public and private sources based upon their achievement.

The \$2,500 scholarships under this program—targeted to students who already are bound to the best universities and in line for other scholarships—are a low pay-off investment of General Fund monies, according to LAO.

ITEM 0954 SCHOLARSHARE INVESTMENT BOARD**ISSUE 2: ONE-TIME SUSPENSION OF MERIT SCHOLARSHIPS**

May Revision Reversion Item. The May Revision proposes adoption of a new reversion item to capture \$4 million of current-year savings in the Governor's Merit Scholarship Program due to somewhat lower number of participants.

LAO Option. LAO points out that a General Fund savings of \$112 million could be achieved by suspending the basic Governor's Merit Scholarship Program for 2002-03.

COMMENTS:

- The suspension would mean that the current group of ninth-through-eleventh graders would have two opportunities, rather than three, to earn these \$1,000 scholarships.
- Staff points out that this program, while providing recognition for student achievement, is not needs-based. Given the large budget shortfall, the subcommittee may wish to consider whether other critical funding needs must receive a higher funding priority for in 2002-03.

ITEM 0450 STATE TRIAL COURT FUNDING

ISSUE 1: CIVIL FILING FEES**BACKGROUND:**

The Governor's Budget proposed a 10 percent surcharge on civil filing fees with proceeds going to the General Fund. The Administration estimated that this proposal would increase revenues by \$15 million annually.

The May Revision proposed these funds be deposited into the Trial Court Trust Fund rather than the General Fund. A commensurate decrease in General Fund support for the trial courts was proposed. These actions were previously approved by this subcommittee.

COMMENTS:

The increase in fees were proposed in response to the anticipated pressure on the State's General Fund in the Budget Year. Since it is the surcharge was proposed to be temporary in nature, it may be appropriate to review the status of this increase in a future year.

Therefore the subcommittee may want to propose that this surcharge extend for a five-year period and then be terminated. At that time a review of the need for that source of revenue may be performed.

CONTROL SECTION 8.00

ISSUE 1: FEDERAL FUNDING FOR ANTI-TERRORISM EFFORTS - AMENDMENTS

BACKGROUND:

In the Budget Bill, Control Section 8.00 requires that any new federal funds received for anti-terrorism efforts at the state or local level will be allocated upon order of the Department of Finance for costs incurred for either the 2001-02 or 2002-03 fiscal years. Further the Department of Finance would be required to report the allocation to the Joint Legislative Budget Committee and appropriations committees in each house no later than 10 days after the effective date of the allocation.

The Administration proposes amendments to this section that would:

- Removal of the notification requirement by report within 10 days of the allocation.
- Authorize allocation within 30 days of the notification to the Joint Legislative Budget Committee.
- Would allow new federal funds to supplant existing efforts in State departments.
- Would allow State departments to transfer prior expenditures against the new federal funds but would not reduce appropriations for the original funding source.

Proposed Section 8.00 (underlined portions are new)

SEC. 8.00 Notwithstanding Section 28,00 of this act, any amounts received from the federal government that are in excess of the federal funds currently appropriated in the Budget Act items for the purpose of funding anti-terrorism costs in the State, are hereby appropriated and will be allocated upon order of the Director of Finance to State departments for state or local assistance purposes or directly to local governments to address high priority needs for costs incurred in 2001-02 and ongoing or new costs for 2002-03. Allocations made to State departments may be used to offset expenditures paid or to be paid from other funding sources. Allocations made for the purpose of an offset shall be applied as a negative expenditure to the appropriation where the expenditure has, or will be charged. Allocations pursuant to this Section may be authorized not sooner than 30 days after notification, to the Chairperson of the Joint Legislative Budget committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.

COMMENTS:

This proposal would increase the State's flexibility to expend any new federal anti-terrorism funds against expenditures incurred in 2001-02 and 2002-03 fiscal years. It would give State departments the ability to free up previously expended funds for general purposes including those funds committed in the prior year.