AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

PART I

Assemblymember Rudy Bermúdez, Chair

TUESDAY, APRIL 12, 2005, 1:30 PM
STATE CAPITOL, ROOM 447

CONSENT/VOTE ONLY CALENDAR

ITEMS TO BE HEARD

CONSENT/VOTE ONLY ITEMS

ITEM 7120 CALIFORNIA WORKFORCE INVESTMENT BOARD

Consent Issue 1: CWIB Spring Finance Letter

The federal Workforce Investment Act (Act) of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers. Pursuant to the provisions of the Act, the Governor established a state Workforce Investment Board comprised of the Governor; two members of the Senate, appointed by the President Pro Tempore; two members of the Assembly, appointed by the Speaker; and representatives of business, labor organizations, community-based organizations, schools and colleges, state agencies, and local governments appointed by the Governor. The Board is tasked with developing workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

The Governor proposes $5.6 million (federal funds and reimbursements) and 26.3 positions for the Board's budget – an increase of $286,000. The Administration did not submit any Budget Change Proposals for this item.

Spring Finance Letter:

The Department of Finance issued an April 1st Spring Finance Letter that reduces CWIB by $775,000 federal funds and 6.0 positions. The proposed change would eliminate six vacant positions in CWIB and use the corresponding savings for job training programs instead. The Department of Finance reports that the reduction is not expected to have any impact on the CWIB's functions.

Staff Comment:

No issues have been raised with the Board's proposed budget or the Spring Finance Letter.

Recommendation

Adopt Spring Finance Letter

ITEM 7300 AGRICULTURAL LABOR RELATIONS BOARD

Consent Issue 2: ALRB Spring Finance Letter

The Agricultural Labor Relations Board is responsible for: (1) conducting secret ballot elections so that farm workers in California may decide whether to have a union represent them in collective bargaining with their employer; and (2) investigating, prosecuting and adjudicating unfair labor practice disputes. The Governor's budget includes 43.2 positions and $4.3 million for the ALRB budget, decrease of $76,000 (1.7 percent) from current year.

Spring Finance Letter:

The Department of Finance issued an April 1st Spring Finance Letter that re-establishes two existing vacant positions in the Department's budget by adding budget bill language. This language is needed to address a technical issue in the continuation of Departmental positions that was not anticipated when the budget was released in January. The proposal does not affect the funding level of the Department.

Staff Comment:

No issues have been raised with the Spring Finance Letter or the Board's proposed budget.

Recommendation

Adopt Spring Finance Letter

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Consent Issue 3: Tax Collection and Benefit Adjustments

The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels, and of the October 2004 forecast of future claims.

- Unemployment Insurance (UI): Benefits are proposed to decrease by $13 million in 2004-05 and decrease by $401.6 million in 2005-06. EDD indicates it will review staffing and propose any adjustments with the May Revision.

- Disability Program: Benefits are proposed to increase by $382.5 million in 2004-05 and increase by $209.2 million in 2005-06. Staffing is proposed to increase by 36.4 positions, and $2.4 million (special fund).

School Employees Fund Program: Benefits are proposed to decrease by $34.1 million in 2004-05 and decrease by $35.9 million in 2005-06. No staffing changes are proposed.

Staff Comment:

No issues have been raised with these adjustments.

Recommendation

Approve as Budgeted

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Consent Issue 4: State Unemployment Tax Act (SUTA) "Anti-Dumping" Laws

The EDD requests 12 positions and $892,000 (EDD Contingent Fund) to implement the provisions of Assembly Bill 664 (Lowenthal, Chapter 827, Statutes of 2004), which added provisions to law to prevent the practice of "SUTA dumping." The most common practice involves unscrupulous employers setting up new "shell" companies to be assigned a lower unemployment insurance rate than their current company's record merits. AB 664 complies with recently enacted federal legislation, and penalizes this illegal practice. Although EDD did not budget additional revenue related to this request, the analysis for AB 664 indicated that past California losses from SUTA dumping could be in the tens of millions of dollars.

Staff Comment:

No issues have been raised with this proposal.

Recommendation

Approve as Budgeted

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Consent Issue 5: Benefit Audit Backlog

The EDD is requesting a one-time augmentation of $9,133,000 (EDD Contingency Fund) and 147 temporary help personnel years, to liquidate EDD's Benefit Audit backlog. EDD reports a backlog of 2.4 million benefit audits. A benefit audit is caused when data suggests an individual has work and earnings but continues to collect benefits by not reporting his or her return to work. The EDD expects audits will result in a total of $105.3 million in accounts receivable – with an expected recovery of $42.1 million (including $8.4 million in penalties and interest). This backlog developed, in part, because staff were redirected to deal with the implementation of SB 40 (Alarcón, Chapter 409, Statutes of 2001,), which increased Unemployment Insurance benefits, and by new identity-theft fraud schemes that the Department has had to combat. The request is for temporary funding, because EDD believes once the backlog is liquidated, the Department will be able to handle the ongoing workload.

Staff Comment:

No issues have been raised with this proposal.

Recommendation

Approve as Budgeted

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

Consent Issue 6: Foreign Labor Certification Spring Finance Letter

The Department of Finance issued an April 1st Spring Finance Letter to eliminate $8.7 million in federal funds and 112 positions at the EDD to reflect the completion of the transfer of the Labor Certification program to the federal government. Until recently, EDD processed labor certification applications for non-citizen workers, but new federal regulations require that beginning January 1, 2005 these applications will be processed by the federal Department of Labor. EDD expects the transfer of all pending and backlogged cases would be finished by March 31 and the unit at EDD would cease operation.

EDD reports that it anticipated this change in federal policy and made arrangements so that all displaced staff can transfer to other vacancies throughout the Department. No layoffs are expected as a result of closure of this unit.

Staff Comment:

No issues have been raised with this Spring Finance Letter.

Recommendation

Adopt Spring Finance Letter

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

Consent Issue 7: Language-Translation Service Contracts

DIR requests a one-time augmentation of $36,000 for service contracts to provide language translation services to assist workers with limited English proficiency to communicate with Division of Occupational Safety and Health staff. Conditional expenditure authority is requested up to $60,000, should the fund balance in the Worker Safety Bilingual Investigative Support, Enforcement, and Training Account (Account) be sufficient. AB 2837 (Koretz, Chapter 885, Statutes of 2002) established the Account and specified the Account could receive contributions from individuals or private organizations, including the proceeds from a judgment in a state or federal court. In March 2004, the California District Attorneys Association gave DIR a check for $36,000 related to an Order for Civil Compromise.

Staff Comment:

No issues have been raised with this proposal.

Recommendation

Approve as Budgeted

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

Consent Issue 8: Spring Finance Letters

The Department of Finance has proposed April 1st Spring Finance Letters that make adjustments to the DIR budget. These letters make the following three changes:

1) Clarifies existing Budget Bill Language to allow DIR to use Unpaid Wage Fund for activities related to the enforcement of the underground economy.
2) Deletes an obsolete provision in the Labor Code that would transfer the balance of the Unpaid Wage Fund to the General Fund if it exceeds $200,000 at any time. The Department of Finance proposes that this statutory mechanism be replaced with a provision in the Budget Bill that would adjust this transfer to account for the actual program expenditures of the Unpaid Wage Fund.
3) Reflects the suspension of the Personal Alarm Devices mandate in the Budget Bill. The Budget Bill made no reference to the mandate, but it should technically be reflected in the budget as an item.

Staff Comment:

No issues have been raised with the proposed changes in the Spring Finance Letter.

Recommendation

Adopt Spring Finance Letter

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

Consent Issue 9: Workers' Compensation Self Insurance Plans

The DIR requests $525,000 (Self-Insurance Fund) and 6 positions to address workload associated with workers' compensation group self-insurance plans. After 2005-06, the ongoing funding request is $509,000. The Labor Code allows any individual or group of employers to meet the statutory requirement of providing workers' compensation benefits by obtaining a Certificate of Consent to Self Insure, which indicates the employer has provided a security deposit and the DIR has reviewed the employer's financial ability to pay any claims. The number of applications processed by the SIP staff has increased by 200% since 2001, while the staffing level for this area has remained unchanged.

Staff Comment:

No issues have been raised with this proposal.

Recommendation

Approve as Budgeted

ITEMS TO BE HEARD

ITEM 0559 SECRETARY FOR LABOR AND WORKFORCE DEVELOPMENT

Issue 1: Agency-Produced Video on Proposed Meal-Break Regulations

The Subcommittee will discuss a video produced by the Labor Agency.

Background

The Department of Industrial Relations has proposed a regulatory change that would change the employee meal breaks requirements. Currently, employers must "provide" a meal break after a certain number of hours of work. Under the proposed change, employers must make meal breaks "available" to employees and allow employees an "opportunity" to take a meal break.

The Agency expended $1,262 on a video, which was provided to media outlets, that advocates for meal-period regulations proposed by the Administration. The production of the video involved the following four state entities.

- The Labor and Workforce Development Agency: Produced, distributed, and funded the video.
- The Employment Development Department: Provided the facility at which the video was produced.
- The Department of General Services: Made the video for a $1,262 fee.
- The Department Industrial Relations: Posted transcripts of the video on the Department's website.

The video includes comments from Mr. Jose Millan, Deputy Agency Secretary; testimonials from management and labor; voiceovers; and a suggested Anchor Lead; that all present positive information about the regulation. No critical information is included in the video, although there has been public opposition to this regulation as early as mid-December.

On February 28, 2005, a *Los Angeles Times* article included the following comments from Mr. Rick Rice, Undersecretary of the Labor and Workforce Development Agency:

> *Rice said the video was intended to counter opposition led by labor. Insisting the video is not propaganda, Rice added: "What they are complaining about is that the message is not being filtered by them, but is going directly into the living rooms of their constituents."*

Statutory restrictions on the use of state property for political purposes: Section 15254 of the Government Code reads as follows:

> *15254. Radio and other communications facilities owned or operated by the state and subject to the jurisdiction of the Department of General Services shall not be used for political, sectarian, or propaganda purposes. Such facilities shall not be used for the purpose of broadcasts intended for the general public, except for fire, flood, frost, storm, catastrophe, and such other warnings and information for the protection of the public safety as the department may prescribe.*

In addition to the video regarding the proposed meal break, the State has released six other Video News Releases. EDD collaborated on five of these productions.

Staff Comment

As noted in numerous press articles, the video did not present any criticisms or trade offs associated with policy change. In addition, the tone of the video suggested that is was an impartial analysis of the issue by a third party, not the opinion of the Administration alone.

According to a December 16, 2004 Editorial in the San Francisco Chronicle: "the new rules will make it unduly difficult to crack down on large companies that try to shortchange their workers in a systematic way".

Chronology of Meal Break Regulatory Process

On March 1, 2004 the Deputy Secretary of the Labor Agency issued a memo that suspended all orders, decisions, and awards regarding meal period enforcement by its field offices until a regulation could be implemented.

During the spring and summer of 2004 the Labor Agency received legal opinions on proposed regulatory changes to the meal break regulations from two firms representing California employers.

On December 10, 2004, DIR posted emergency labor regulations that modified existing meal break regulations. The regulations were withdrawn ten days later.

On December 20, 2004, DIR issued a memo to all staff at the Division of Labor Standards Enforcement requiring them to disregard opinion letters from four cases involving meal break regulations that served as the guideline for existing meal break case resolutions.

On January 4, 2005, DIR filed with the Office of Administrative Law its intent to change the meal break regulations. Three public hearings were held around the State on February 4, February 8, and March 2.

DIR expects 15 Day Notice of Modification to be released the week of April 4th.

After that step, DIR will need about two weeks to review and summarize comments in the Final Statement of Reason and then file the Regulations around the beginning of May 2005 with the Office of Administrative Law (OAL). OAL then has 30 working days to approve or reject the regulations.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 2: MEAL BREAK CASES HELD IN ABEYANCE

Cases pending review by DIR involving employer meal-break violations have been held up by DIR.

Background

DIR's Division of Labor Standards Enforcement adjudicates wage claims on the behalf of workers who file claims for nonpayment of wages, overtime, or vacation pay pursuant to California Labor Code Sections 96 and 98. DLSE deputies hold informal conferences between employers and employees to resolve wage disputes. If a matter cannot be resolved at the informal conference, an administrative hearing is held to make a final determination on the matter. About 90 workers have been waiting for as long as 10 months to possibly receive back wages and fines owed by their employers for violations of current State meal-break policies. The claims amount to as little as several hundred dollars to several thousand and have been filed against both large and small employers. Only potential awards that exclusively deal with lunch breaks and have gone through the full fact-finding process are being delayed. Cases that involve a combination of wage and hour violations are going forward.

Staff Comment

The DIR process of adjudication is designed to help both employer and employees avoid expensive court proceedings in the resolution of labor standards disputes. The Department's attempt to hold up existing cases based upon the expectation that existing regulations will change undermines both this intent as well as the regulations process. Future employees may choose to advance their cases in the courts, rather than through DIR due to the Department's practice of attempting to enforce proposed changes in regulations as if they were the existing practice of the State.

It is possible that the threat of having these cases held up could push employees to settle their claims for less money than they are owed.

ISSUE 3: DIVISION OF APPRENTICESHIP STANDARDS

The DIR has requested additional staff to handle increases in workload, but it may be closing its office in Fresno.

Background:

The DIR has requested additional staff for the Division of Apprenticeship Standards to handle a backlog of existing workload and recent legislative mandates.

Electronic Certification Unit

The DIR is also requesting $566,000 (Apprenticeship Training Contribution Fund) for seven two-year limited-term positions to process and review applications in the Electrician Certification Unit. In 2006-07, the cost of the positions would be $527,000. Workload has increased in this area with legislation adopted over the past six years. AB 931 (Calderon, Chapter 781, Statutes of 1999) required the development of standards for competency and training of electricians. AB 1087 (Calderon, Chapter 48, Statutes of 2002), required electricians to become certified by January 1, 2005. As of July 2004, only 6,200 of an estimated 70,000 electrical workers in the state have completed the process. The Department indicates these positions are needed to process this workload spike as electrical workers meet this new requirement.

Apprenticeship Programs Backlog Staffing

DIR is requesting $409,000 (Apprenticeship Training Contribution Fund) and eight positions to address the backlog in statutorily mandated audits of apprenticeship programs, and to have sufficient staffing to attend apprenticeship committee meetings for educational and mediation purposes. Ongoing funding after 2005-06, is $378,000 annually. The number of active apprentices has increased from 58,919 in June 2000 to 70,494 in June 2004, with nearly 1,000 apprenticeship programs in operation. The number or Apprenticeship Consultant positions have fallen from 28 in 2001-02 to 21 in 2003-04 as a result of the hiring freeze and vacant-position-elimination requirements.

In addition, DIR has requested $246,000 and 4.0 positions funded by the Apprentice Training Contribution Fund. The four positions are Office Technicians, two will staff district offices and two will assist the Apprenticeship Training Contribution Program.

Staff Comment:

Although the staffing level is being increased in the Division of Apprenticeship Standards, the Subcommittee has received feedback from residents of California's Central Valley counties that the only consultant position at the Central Valley office in Fresno may be consolidated with the Sacramento Office. Currently most Division staff is located in the Bay Area or Los Angeles, leaving only three staff to cover the entire eastern side of the State. Given the recent increase in construction activity in cities such as Fresno, Bakersfield, and Merced, there is concern that the closure of this office will adversely affect the quality of apprenticeship programs in the Central Valley.

Although DIR is asking for a large number of positions in the current year, the scope and magnitude of the workload increase experienced by the Division seem to justify the higher level of staffing. There is not General Fund cost to these proposed positions

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT
ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

Issue 4: Economic and Employment Enforcement Coalition

The Governor's Budget includes a proposal to reduce underground economic activity through a three-department effort named the "Economic and Employment Enforcement Coalition".

Background

The Governor's budget includes three proposals that comprise a new initiative called the "Economic and Employment Enforcement Coalition." The effort envisions three departments: EDD, the Department of Industrial Relations and the Contractors' State License Board working together to reduce underground-economy activity, and in doing so reducing unfair competition for employers who follow labor laws.

The Governor proposes an augmentation of $3 million (special funds) and 27.5 positions (three-year limited term) to conduct increased enforcement activities against employers who violate labor laws. The DIR would use these additional positions to increase inspection activity and issue citations and penalties to employers who keep employees "off the books" and/or do not follow workplace safety regulations. The following two DIR Divisions are included in this request:

- The Division of Labor Standards Enforcement (BCP #1) would receive $1.5 million and 16 positions for investigation, enforcement, and collection activities associated labor-law violations in the areas of workers' compensation, minimum and overtime wages, and licensing compliance.

These positions would be funded from the Uninsured Employers Benefits Trust Fund, the Garment Industry Regulation Fund and the Unpaid Wage Fund. The Division is 80-percent funded by the General Fund, and past General Fund reductions have reduced staffing from 493 in 2001-02 to 403 in 2003-04.

- The Division of Occupational Health and Safety (BCP #2) would received $1.5 million and 13 positions for targeted enforcement of workplace health and safety laws for the following industries with higher levels of non-compliance: construction, agriculture, and garment manufacturing. These positions would be funded from the Targeted Inspection & Consultation Fund and the Industrial Relations Unpaid Wage Fund. DIR reports funding for field enforcement positions has declined in recent years – with 245 positions funded in 2001-02 and 209 positions funded in 2004-05.

- The Employment Development Department Budget would be increased by $2.5 million (EDD Contingent Fund and Disability Insurance Fund) and 23.7 positions, 3-year limited-term to conduct increased enforcement activities against employers who violate labor laws. The EDD indicates this proposal would combat a significant increase in the number of employers attempting to illegally cut operating costs by converting acknowledged employees to independent contractors. Since this effort is expected to identify unreported wages, EDD projects a General Fund benefit of $0.78 million in the first year, and $1.77 million annually thereafter.

The Contractors' State License Board is the other member of the proposed Economic and Employment Enforcement Coalition.

Staff Comment

Although this proposal may generate some additional revenue, the budget does not assume any additional revenue as a result of this proposal.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Issue 5: Federal Unemployment Insurance Loans

EDD and LAO will update the Subcommittee on the current condition of the State Unemployment Insurance account.

Background

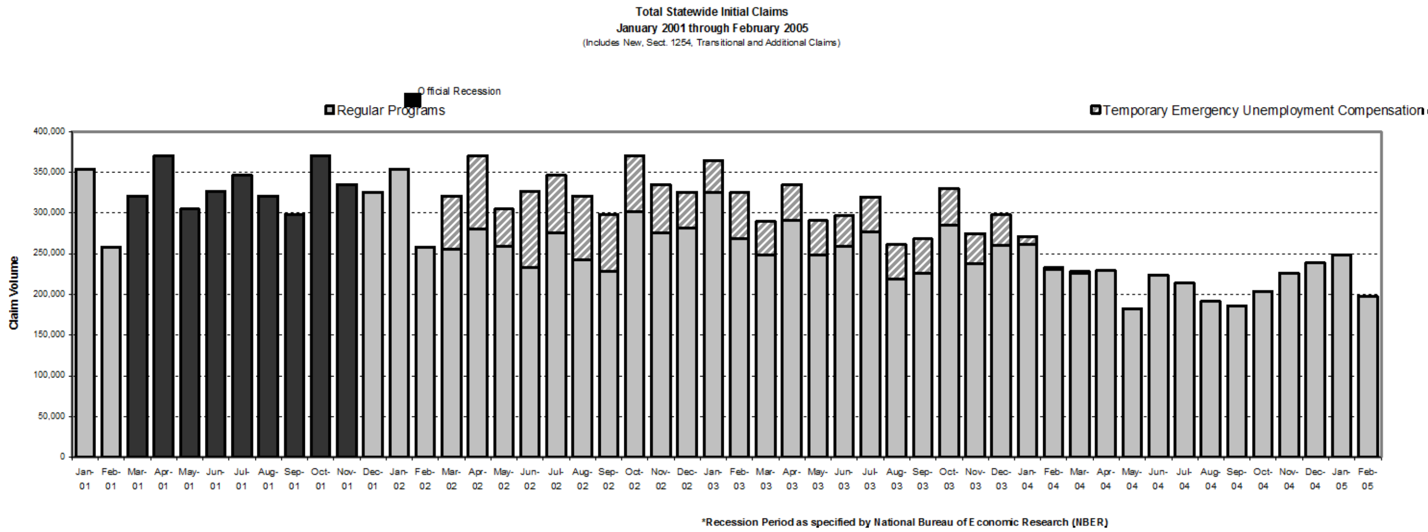
Recent legislation increased Unemployment-Insurance (UI) benefits, but did not increase the corresponding tax base or tax rate. SB 40 (Alarcón, Chapter 409, Statutes of 2001) provided for an increase in the maximum weekly benefit from $230 to $450. At the time that SB 40 was enacted, EDD estimated that it would increase annual costs for the UI fund by about $1.2 billion each year. Current law allows for UI tax rate adjustments up to specified ceilings, based on economic conditions and the individual employer's use of UI benefits. However, the Legislative Analyst finds that the current tax revenue schedule is unsustainable through the full economic cycle – suggesting that when the economy again moves toward a recession, the UI Fund will become insolvent.

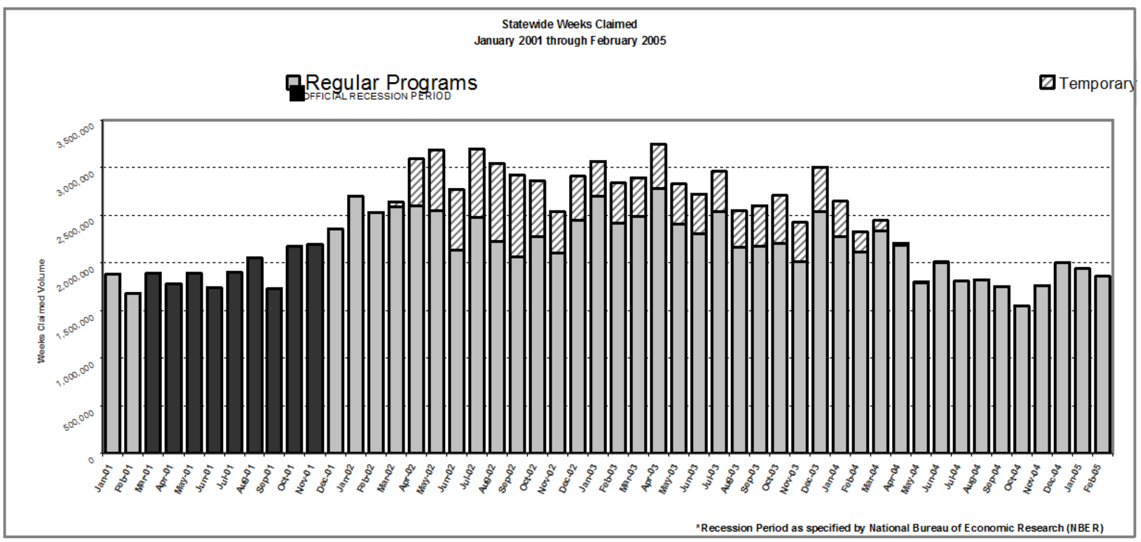
The federal government provides loans to states that experience negative UI Fund balances. If the loans are repaid within the federal fiscal year, no interest or penalties are applied to the loan. In April 2004, the UI Fund became insolvent and the state borrowed $214 million in federal funds in order to pay benefit claims. The loan was repaid in May 2004. The 2004 Budget Act provided authority to pay interest on this loan, but due to the quick repayment, the federal government did not assess interest.

The EDD is requesting provisional language in the Budget Act to allow for the payment of interest costs, up to $3 million (from the EDD Contingency Fund), should interest payments be necessary on federal government loans. Similar authority was provided in the 2004 Budget Act.

UI STATUS

The condition of the Unemployment Insurance Fund has improved due to the combined effect of a lower rate of initial unemployment claims and fewer weeks of benefits claimed. The charts on the next page illustrate both trends.





LAO Comment

In the *Analysis of the 2005-06 Budget Bill* (page F-86), the LAO indicates it asked EDD to update the UI Fund forecast using the more-optimistic LAO economic forecast. The EDD reported back that using the LAO economic numbers produced positive UI Fund balances at the end of 2005 and 2006. Still, the LAO believes corrective action is needed to maintain UI solvency through the next recession. The LAO indicates corrective action could take the form of four options:

1) Increase the taxable wage base from the current $7000.
2) Increase the tax rate schedules.
3) Reduce benefit payments.
4) Some combination of the previous three options.

Staff Comment

The LAO projects that the EDD will not be assessed a UI interest charge in 2005; however, the authority to make an interest payment would allow for an interest payment if the forecast were incorrect.

Issue 6: Workforce Investment Act (WIA) Provision Language

The LAO recommends that the Legislature delete a provision in the EDD's section of the Budget Bill.

Background

The LAO recommends that the Legislature delete Provision 1 of the WIA Budget Act appropriation that allows the Administration to expend unanticipated "discretionary "WIA funds without the typical legislative review and normal budget requirements.

WIA funds are federal funds provided to states for labor-force training and development purposes. Fifteen percent of WIA funds, called discretionary funds, can be spent on a range of workforce employment activities (state administration, statewide initiative, current employment services programs, and competitive grant programs) upon appropriation by the Legislature. The remaining 85-percent of WIA funds are allocated to local Workforce Investment Boards. Provision 1 of Item 7100-001-0869 of the 2004 Budget Act exempts WIA appropriation from Section 28.00 requirements. Section 28.00 of the Budget Act restricts the Administration's expenditure of unanticipated federal funds and requires 30-day notification to the Legislature.

In December 2004, the Director of Finance notified the Legislature of $21.7 million in unspent WIA funds from 2003-04. Pursuant to Provision 1, the notification creates expenditure authority without the normal input from the Legislature.

In the 2004 Budget Act the Legislature added a provision to the WIA appropriation that provided $310,000 for the training of California Conservation Corps members. The Administration deleted this provision in the proposed 2005-06 budget bill.

Staff Comment

EDD and LAO are discussing alternative compromise language on this issue that may be available at the time of the hearing.

Issue 7: Auditor and Collector Staffing

The LAO recommends augmenting EDD auditor and collections positions.

Background

EDD collects from employers the payroll taxes for Unemployment Insurance (UI); employee contributions for Disability Insurance (DI); Personal Income Tax (PIT) withholdings; and payments to the employment training fund. Since 1998-99, EDD has lost 165 auditor and collector positions, most through position elimination requirements in recent budgets. At the same time, revenue-generating positions at the Franchise Tax Board and the Board of Equalization have been exempt from the position eliminations. Unlike the other tax collection entities, EDD does not have a systematic method for identifying the strongest audit and collection leads with the biggest payoff.

Legislative Analyst Recommendation

In the *Analysis of the 2005-06 Budget Bill*, the LAO recommends augmenting the EDD budget by $3.6 million ($2.6 million General Fund and $1.2 million Disability Insurance Fund) and adding 50 auditor and collector positions. EDD indicates this proposal would increase revenues – producing a net General Fund benefit.

The table below provided by LAO, projects the new benefit of this proposal:

Revised EDD Estimate of General Fund Cost Benefit Ratio					
	GF Revenue	CF Revenue	Total	Costs [2]	Ratio
Year 1	$2,104,586	$1,615,702	$3,720,288	$2,690,100	1.4
Year 2	$4,415,677	$3,389,939	$7,805,616	$2,517,900	3.1
Year 3	$6,188,443	$4,750,901	$10,939,344	$2,517,900	4.3
Total	$12,708,706	$9,756,542	$22,465,248	$7,725,900	2.9

The LAO also recommends the following supplemental report language:

By January 10, 2007, the Employment Development Department shall report to the Legislature on the amount of additional revenue generated by the new auditors and collectors added during 2005-06.

Staff Comment

Although the new positions are projected to generate a net General Fund savings, the return on these savings are projected to be significantly less than similar proposals that added such staff to other departments like the Franchise Tax Board.

Issue 8: Employment Training Panel

The Governor's Budget reduces funding for the Employment Training Panel program.

Background

The Governor's Budget assumes $36 million for the Employment Training Panel (ETP). The mission of ETP is to provide financial assistance to California businesses to promote customized worker training through partnerships with government, business, and labor. ETP uses the Employment Training Fund (one-tenth of one percent of subject unemployment insurance wages paid by every private, for-profit employer in the state and some non-profits) amounting to no more than $7.00 per-covered-employee-per year.

A portion of ETP funds is used annually to support training in the CalWORKs program. The amount of ETP funding for CalWORKs has increased in recent years to offset General Fund reductions. Control Section 6.60 of the 2004 Budget Act provided for State government workers' compensation savings, up to $40 million, to be directed to CalWORKs with an equal reduction in the ETP transfer to CalWORKs. The Administration reports that this mechanism has resulted in $16 million for additional ETP grants. The $16 million is an ongoing benefit to ETP, and is included in the Administration's proposed budget.

Spring Finance Letter

The Department of Finance has issued an April 1st Spring Finance Letter that adjusts the Employment Training Fund transfer to DSS to account for an overestimation of workers compensation savings at the Department of Fair Employment and Housing. As noted above, ETP receives additional funding for any workers compensation savings in State government. The Department of Finance has re-examined its estimate for the Department of Fair Employment and Housing and believes that the department will save $391,000 less than projected in the January budget. As a result the Spring Finance Letter adjusts the transfer to ETP and the offsetting adjustment to the Department of Social Services to reflect the anticipated workers compensation savings.

Staff Comment

Studies have found that ETP programs generate the highest return on increased worker income per dollar spent on training of any State workforce development program.

All ETP funds moved to CalWORKs is counted as part of the State's required Maintenance of Effort (MOE) to receive $2.7 billion in federal TANF funding. If the ETP funding were removed from CalWORKs, it would need to be replaced with General Fund.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS

Issue 9: Workers Compensation Update

The Subcommittee will receive an update on last year's changes to the Worker's Compensation system.

Background

DIR's Division of Worker's Compensation monitors the administration of workers' compensation claims and provides administrative and judicial services to assist in resolving disputes that arise in connection with claims for workers' compensation benefits.

Three recent bills have fundamentally changed Worker's Compensation policy in California. Governor Davis signed two bills, AB 227 (Vargas, Chapter 635, Statutes of 2003) and SB 228 (Alarcon, Chapter 639, Statutes of 2003) that established standardized rates for every medical care provider, including outpatient surgery centers, set fee schedules for pharmaceuticals, capped the number of visits to chiropractors and physical therapists, and required "utilization reviews" which would set care standards for injuries. Governor Schwarzenegger signed SB 899 (Poochigian, Chapter 34, Statutes of 2004) into law on April 19, 2004. The bill requires injured workers to select doctors from a pool of doctors approved by employers and insurers when the insurer or self-insured employer has an approved Medical Provider Network (MPN). SB 899 also created criteria for evaluation of permanent disability payments, capped payments for temporary disability at two years, and permitted injured workers to seek immediate medical attention, prior to the acceptance or denial of the claim, paid for by the employer.

The Department of Finance issued an April 1st Spring Finance Letter to re-appropriate $990,000 and re-establishes 274.3 existing vacant positions in DIRs budget by adding budget bill language. This language is needed to address a technical issue in the continuation of Departmental positions that was not anticipated when the budget was released in January. Most of these vacant positions are the result of delays in both the hiring process and the implementation of specific components of the last year's Workers' Compensation reform.

Staff Comment

There have been no concerns raised with the proposals outlined in the Spring Financial Letter.