

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember John Dutra, Chair

**TUESDAY, APRIL 13, 2004
STATE CAPITOL, ROOM 447**

CONSENT CALENDAR

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0650	Office of Planning and Research
0845	Department of Insurance
2100	Department of Alcoholic Beverage Control
2120	Alcoholic Beverage Control Appeals Board

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ITEMS TO BE HEARD

ITEM 0840 STATE CONTROLLER

The State Controller (SCO) is the Chief Financial Officer of the State, elected by the people. As such, the Controller's primary objectives are to: (1) provide sound fiscal control over both receipts and disbursements of public funds; (2) report periodically on the financial operations and condition of both state and local governments; (3) make certain money due the State is collected through fair, equitable and effective tax administration; (4) provide fiscal guidance to local governments; (5) administer the Unclaimed Property and Property Tax Postponement Programs; and (6) develop and establish policy for a significant number of boards and commissions, including all major tax boards.

The Governor's Budget's total proposed funding for the department is \$107.1 million - \$68.5 million General Fund, \$38.5 million Special Fund. These funding levels represent a General Fund reduction of \$1.9 million from 2003-04.

ISSUE 1: APRIL 1 FINANCE LETTER – TRADE AND COMMERCE PROGRAMS

An April 1 Finance Letter is proposing a one-time General Fund Augmentation of \$176,000 and 2.0 positions for additional workload assumed due to the closure of Technology Trade and Commerce Agency. The SCO is now administering 130 loans totaling over \$16.1 million in outstanding debt. Without the additional resources, failure to collect on delinquent accounts could result in the loss of up to \$2.0 million in 2004-05.

There have been no issues raised with this proposal. The subcommittee needs to take action on it because it is from an April Finance Letter. Staff Recommends approval of request.

ISSUE 2: APRIL 1 FINANCE LETTER – UNCLAIMED PROPERTY FEES

Since 1959, Banks and other Institutions have been required to remit unclaimed property to the State. Once unclaimed property is transferred to the State, the SCO manages the property attempts to locate its owners. According to the SCO, currently the state holds in excess of \$3.4 billion in unclaimed property belonging to over five million individuals and organizations. This amount tends to grow each year, as new revenues exceed claims paid out.

LAO Recommendation: The LAO has recommended that the Legislature adopt a fee to cover the costs of administering the unclaimed property program (\$13.4 million annually). In the budget year, accounting for implementation time, this fee could generate \$6.9 million in increased revenues.

April 1 Finance Letter - Unclaimed Property Fee Proposal. An April 1, 2004 Finance letter proposes the implementation of a 6 percent fee on approved unclaimed property claims to generate sufficient revenue to cover the direct program staffing and operating expenses and equipment costs of administering the program. Fee revenue, estimated at \$5.1 million in 2004-05 and \$10.2 in 2005-06 and annually thereafter, would be deposited in a newly created

ITEM 0840 STATE CONTROLLER

(continued)

account within the Unclaimed property Fund beginning January 1, 2005. There could be a shortfall in the amount of fee revenue if the claim volume and/or the average dollar paid per claim declined. In order to ensure that sufficient funds are available to cover program costs in the event of a revenue shortfall, this Finance Letter proposes an initial transfer of \$1.0 million from the Abandoned Property Account to the new account. Although this would reduce General Fund revenues by \$1.0 million, the administration believes that unclaimed property revenue estimates are expected to increase by an amount that would more than offset this reduction. Revenue estimates for this proposal are expected in the May revision.

The Finance Letter is also proposing a special fund augmentation of \$329,000 for increased Unclaimed Property processing workload. Claims workload is anticipated to increase by 21 percent over 2002-03 levels in 2004-05, while staffing levels including the requested positions will increase by just over seven percent (excluding one-time positions provided for the Amnesty Program).

Staff Comments: Within unclaimed property statute it is stated that, "The care and custody of all property delivered to the Treasurer or Controller is assumed by the State for the benefit of those entitled thereto." Currently, the State collects interest earned from Unclaimed Property that is more than sufficient to fund the operating costs of the program. The SCO projects that interest earned from unclaimed property will generate General Fund savings of \$10.3 million in 2004-05 and 19.6 million in 2005-06. When looking at this proposal, the subcommittee should consider whether it is appropriate to charge a fee for these services when interest earned from the claims already generate sufficient savings to fund the program.

Alternative proposal: As an alternative to a fee-for-services proposal, the subcommittee could consider using the continuously appropriated Unclaimed Property Fund to fund the program. The Controller at one time was able to use this fund to cover the costs of administering the program. However, budget bill language was implemented that restricted the SCO from accessing the fund for its administrative costs.

This alternative proposal would allow the SCO to recover administrative costs of the Unclaimed Property Program from the continuously appropriated Unclaimed Property Fund. In turn this would reduce the annual general fund appropriation for Unclaimed Property program administration. Because outstanding balances in the Unclaimed Property Fund are annually swept to the General Fund, this proposal would not provide any General Fund savings.

With regards to this proposal, the subcommittee may want to consider making an appropriation from the Unclaimed Property Fund to cover costs of administering the Unclaimed Property Program rather than giving the SCO open authority to access the fund. Without proper oversight of Unclaimed Property Funding, the State could possibly encumber unanticipated General Fund costs due to decreased revenues from future fund sweeps.

ITEM 0840 STATE CONTROLLER

(continued)

ISSUE 3: APRIL 1 FINANCE LETTER – STATE DISABILITY INSURANCE PROGRAM

The April 1, 2004 Finance Letter requests a one-time General Fund Augmentation of \$614,000 and 2.0 limited-term positions be provided to modify the human resources and payroll systems for the State Disability Insurance (SDI) Program authorized by Chapter 878, Statutes of 2002 (AB 2149). In addition the Finance Letter also requests a one time General Fund augmentation of \$58,000 and 0.7 one-year limited-term position for 2005-06 for these purposes.

ISSUE 4: PERFORMANCE AUDITS BUDGET BILL LANGUAGE

Prior to 1998, the SCO had the ability to use appropriated funds to perform statewide performance audits. Beginning in the 1998 Budget act, the legislature adopted budget bill language that restricted this function and specified that the scope of performance audits conducted by the State Controller's Office be limited to fiscal audits that focus on claims and disbursements.

The SCO is proposing that this language be amended to allow the Controller to conduct a performance review or performance audit only after the Controller has provided the Joint Legislative Budget Committee (JLBC) with a 14-day notification of their intent and scope of the audit. The Controller would further be required to report the findings of an audit to the JLBC within 30 days of completion of the audit.

Current BBL**0840-001-0001**

9. *The funds appropriated to the Controller in this act may not be expended for any performance review or performance audit except pursuant to specific statutory authority. It is the intent of the Legislature that audits conducted by the Controller, or under the direction of the Controller, shall be fiscal audits that focus on claims and disbursements, as provided for in Section 12410 of the Government Code. Any report, audit, analysis, or evaluation issued by the Controller for the 2003-04 fiscal year shall cite the specific statutory or constitutional provision authorizing the preparation and release of the report, audit, analysis, or evaluation.*

Proposed BBL**0840-001-0001**

9. *The funds appropriated to the Controller in this act may not be expended for any performance review or performance audit until after the Controller has provided the Joint Legislative Budget Committee with a 14- day notification of his/her intent to perform such audits as well as the scope of the audit to be performed. Within 20 days of completion of any such performance audit, the Controller shall provide to the Joint Legislative Budget Committee a copy of a report detailing the Controller's findings and recommendations.*

ITEM 0840 STATE CONTROLLER

(continued)

ISSUE 5: MEDICAL AUDIT POSITIONS

The Governor's budget proposes to transfer the Medi-Cal Non-Institutional Provider Auditing functions of the SCO to the Department of Health and Human Services (DHS). Since 1999, the SCO has had performed through an interagency agreement Medi-Cal audits. At an estimated cost of \$2.4 million annually (\$1.2 million General Fund/\$1.2 million Federal Funds). This proposal would transfer 20 positions to DHS and would result in the elimination of 5.5 PYs for a total General Fund savings of \$300,000.

Staff Comments: Since 1999, the SCO claims that their audits have culminated in over 300 convictions, 2,000 administrative sanctions and \$216.8 million (108.4 million General Fund) in recommended audit recoveries. Under the Governor's proposal, these functions would be completely transferred to DHS.

ITEM 0890 SECRETARY OF STATE

The Secretary of State, a constitutionally established office, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office 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 certification as to authenticity.

The executive staff determines policy associated with the administration of the office through the programs of Elections, Political Reform, Business Programs, Archives, Information Technology and Management Services Divisions.

The Governor's Budget's total proposed funding for the department is \$69.6 million - \$26.7 million General Fund, \$42.9 million Special Fund. These funding levels represent total funds decrease of \$63.4 million and a General Fund increase of \$2.4 million from 2003-04.

ISSUE 1: CALIFORNIA CORPORATE DISCLOSURE ACT – AB 55

The Governor's budget proposes an augmentation \$1.6 million from the Victims of Corporate Fraud Compensation Fund (VCFCF) in order to fund California Corporate Disclosure Act, AB 55 (Shelley).

ITEM 0890 SECRETARY OF STATE

(Continued)

ISSUE 2: INCREASE IN NOTARY APPLICANT TESTING

The Governor's budget proposes an augmentation of \$2.1 million (Business Fee Fund) for the testing and processing of notary applications. This proposal is in response to an increase in the number of applicants testing to be appointed notaries public and processing of applications.

ISSUE 3: HELP AMERICA VOTE ACT OF 2002

The Governor's budget proposes \$1.7 million in expenditure authority from the Federal Trust Fund to continue the administration of the Help America Vote Act of 2002 (HAVA).

Staff Comments: 15 positions and funding were established in the current year through the Control Section 28 process (augmenting budgets for unanticipated non-state funds). The availability and rate of expenditure for the HAVA funds is not certain beyond 2005-06.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

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

The Governor's Budget's total proposed funding for the department is \$875.9 million - \$3 million General Fund, \$872.9 Special Fund. These funding levels represent a General Fund reduction of \$2 million from 2003-04.

ISSUE 1: ASSET ENHANCEMENT CONSULTANT SERVICES.

The Governor's budget proposes a \$3.0 million augmentation and 2.0 permanent positions in support of consultant and oversight services to assist in the sale and disposition of properties owned by the Youth and Adult Correctional Authority.

LAO Recommendation. The LAO has recommended the approval of \$3 million and two positions, on a two-year limited-term basis.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

(continued)

Staff Comments. The Department has expressed concerns that due to the nature of this position, a two-year limited would make the recruitment process much more difficult. The Department of Finance, LAO and DGS are in agreement, however, that a three-year limited term for these positions would be agreeable – keeping in mind that depending on surplus property sale workload, the DGS may return after the three-year time period with an extension request.

ISSUE 2: LAO RECOMMENDATION: DGS STATEWIDE SERVICE FEES

DGS funds its operations through fees charged to State Department for services rendered. In the 2003-04 Budget Act, DGS was to implement operational efficiencies that would allow the department to lower its fees by 3 to 5 percent. These actions, however, did not result in any reduction of fees in the 2004-05 Budget.

LAO Recommendation. The LAO recommends that the Legislature should direct DGS to lower their service fees by three percent. Furthermore, the Legislature should additionally adopt the following budget bill language in order to ensure the reductions are implemented.

Upon approval by the Department of Finance on or before September 1, 2004, the Department of General Services shall submit to the Chairperson of the Joint Legislative Budget Committee a revised fee schedule that reflects operational efficiencies and reduces fees to client departments.

Staff Comments: In response to the LAO analysis, DGS cites the following two factors for its inability to lower service fees: 1) An unanticipated transfer of \$13 million in proposed General Fund expenditures to the Service Revolving Fund. 2) An inability to absorb its \$14 million increase in employee compensation costs.

April 1 Finance Letter. The Department of Finance has proposed Budget Bill Language (BBL) in an April 1, 004 finance letter that provides additional oversight for the rate setting process. Specifically, the BBL requires the department to submit a report to the Department of Finance and the LAO on or before July 1, 2004 detailing the cost factors reflected in the 2004-05 rates. The Department of Finance shall use this report to review the current methodologies used to set rates and shall report their findings as part of the 2005-06 budget.

Beginning in 2005-06 and each year forward, BBL additionally requires that DGS submit to the Department of Finance a proposal that reconciles the current year rates and details any adjustments proposed for budget year rates to be included in the Governor's Budget.

ITEM 1760 **DEPARTMENT OF GENERAL SERVICES**

(continued)

ISSUE 3: IMPLEMENTATION OF SB 552 (BURTON)

The Department should be prepared to give an update on the implementation Chapter 737, Statutes of 2003, SB 552 (Burton).

In practice, this bill will do five things: First, it will require DGS to develop procurement policies to favor vehicles that are low emissions, fuel-efficient, hybrid, or alternative fuel capable. (Emergency vehicles are exempted from this requirement.) Second, it encourages agencies to use alternative fuels in "bi-fuel" capable fleet vehicles "to the maximum extent possible." Third, state agencies will be required to review their fleets and dispose of non-essential SUVs and 4WDs. Fourth, DGS or a purchasing-agency will be required to approve any SUV or 4WD vehicle purchased or leased, and then only if it is to be used for an "essential" office function. Finally, this bill requires DGS to compile and maintain data on the numbers and costs of the state vehicle fleet, categorized by automobile type, fuel source, and time of purchase, which shall be made public on the DGS Web site.

ITEM 8660 PUBLIC UTILITIES COMMISSION

The Public Utilities Commission (PUC) regulates privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain passenger and household goods carriers. The commission's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The commission also promotes energy conservation through its various regulatory decisions.

The budget proposes PUC expenditures of \$1.2 billion in 2004-05 from various special funds supported by ratepayers and charges paid by regulated entities (plus a small amount of federal funds). This is a \$74 million reduction from the current year due to lower expenditures in funds that support various universal service telecommunications programs. Proposed staffing increases by about 35 PYs. The Governor's budget also proposes to permanently establish 18 positions to administer the commission's universal service telephone programs.

Public Utilities Commission Funding and Staffing Governor's Budget 2004-05 (Dollars in Millions)				
	2002-03	2003-04	2004-05	Percentage Change from 2003-04
Staff costs, operating expenses and equipment, and rental and insurance costs	\$ 122.2	\$ 106.4	\$ 107.1	0.6%
Universal Service Telecommunications Programs	708.7	925.2	851.4	-8.0%
Gas Consumption Surcharge Program	<u>252.4</u>	<u>246.8</u>	<u>246.2</u>	<u>-0.2%</u>
Total spending	\$1,083.3	\$1,278.5	\$1,204.8	-5.8%
Staffing (personnel-years)	875.8	798.6	833.5	4.4%

ISSUE 1: TELECONNECT PROGRAM

The Subcommittee heard this issue for discussion at its March 24th hearing and directed staff to develop proposals to address the following issues that were raised by the Legislative Analyst:

1. Funding needs of the program.
2. Maximizing use of available federal funds.
3. Targeting the program's discounts.
4. Capping the program's funding or surcharge rate.

BACKGROUND

[Note: The following background material is repeated from the March 24th Subcommittee Agenda.]

The Teleconnect Program provides discounts on telephone service, and other advanced telecommunication services that provide access to the Internet (such as DSL services) to schools, libraries, and qualifying hospitals, health clinics, and community-based organizations. Currently, the program provides a 50 percent discount regardless of the particular qualifying service or recipient. The service carrier applies this discount to the qualifying entity's telecommunications bill. The service carrier then submits claims to PUC to be reimbursed for the discounts provided.

Recent Legislation. AB 855, Firebaugh (Chapter 820, Statutes of 2003), specifically established the program in statute, although the program has operated under PUC decisions since 1996. SB 1863, Bowen, (Chapter 308, Statutes of 2002) made nonprofit community technology programs eligible for the same discount provided to schools and libraries (currently 50 percent). Previously, the PUC had provided a 25 percent discount for these nonprofit entities. SB 720, Bowen, (Chapter 531, Statutes of 2003) allows the PUC to spend up to \$3 million from its appropriation for the Teleconnect Program in 2003-04 and 2004-05 to pay for an additional 40 percent of the one-time installation costs for entities that do not have access to advanced telecommunications services. The additional \$3 million would be from any unencumbered balance remaining from these appropriations.

The Federal E-Rate Program. The federal government's E-Rate Program also offers discounts on telecommunications services to schools and libraries (but not to hospitals, clinics or nonprofit organizations). The federal program also provides discounts on wiring and hardware needed to expand data access within a school or library. The E-Rate program provides a 20 percent discount on eligible services to libraries and a discount of 20 percent to 90 percent on services to schools (Higher discounts are awarded to schools in rural locations and to schools with a higher percentage of students that qualify for the National School Lunch Program). Schools and libraries may participate in both the federal E-Rate and state Teleconnect programs, the federal discount is applied first to the cost of the services, and then the state discount is applied to the remaining costs. For example, a school with 50 percent of students qualifying for the National School Lunch Program would receive a 60-percent E-Rate discount. The PUC's Teleconnect Program would then provide a 50 percent discount on the remainder of the bill, so the net cost to the Teleconnect Fund would be 20 percent of the full bill (half of the 40 percent remainder after the E-Rate discount).

FUNDING NEEDS

The Governor's Budget estimates expenditures of \$26.4 million in 2003-04 and proposes \$5.3 million of spending in 2004-05, for a total of \$31.7 million over the two years. The budget does not propose any repayment of the \$150 million loan to the General Fund from the Teleconnect Fund that was made in the 2003-04 Budget, nor does it assume reinstatement of the telephone bill surcharge that funds the program. Accordingly, the amount of spending proposed in the Governor's Budget is limited to the balance in the Teleconnect Fund as estimated at the time the budget was developed. However, the Legislature's intent (as expressed in AB 1756) was

that the Teleconnect Program would continue and any additional funding needed would be provided either through loan repayments from the General Fund or by reinstating the surcharge.

At the March 24th hearing, the PUC informed the subcommittee that the Teleconnect Fund had a cash balance of \$21.3 million and \$38.7 million of pending unpaid claims. Consequently, the commission will need \$17.4 million of new surcharge revenue to meet its current obligations in 2003-04. In addition, the commission estimates that \$18 million of additional surcharge revenue will be needed in 2004-05 to continue the Teleconnect Program as currently structured. There is adequate appropriation authority in the current year to cover payment of pending claims (but not adequate revenue). For 2004-05, the Teleconnect Fund appropriation would need to be increased by \$12.7 million to cover anticipated program costs.

SURCHARGE CAP

Under current law, the PUC has broad discretion to set the parameters of the Teleconnect Program. There are no limits on the number of participants or level of subsidies awarded in the CTF program. Instead, CPUC is given broad authority to administer the CTF program, including the authority to raise the surcharge that supports this program to cover increased program costs. The Legislature does exercise spending control over the program through the annual budget appropriation. However, there is no legislative control over the surcharge rate or program revenues.

MAXIMIZE FEDERAL FUNDS

Schools and libraries are eligible for discounts from both the federal E-Rate Program and the Teleconnect Program. The E-Rate Program provides a sliding-scale discount to schools (from 20 percent to 90 percent, depending on the percentage of students in the school lunch program and whether the school is in a rural area) and a flat 20-percent discount to libraries. The Teleconnect Program's 50-percent discount is applied after any federal discount. However, there is no requirement that schools or libraries participate in the E-Rate Program. In the absence of E-Rate participation, the Teleconnect Program pays half of the full bill. As a result, California ratepayers are paying for some costs that could be paid from available federal funds.

Also, the commission must rely on telecommunications providers to properly account for actual federal payments on behalf of schools and libraries in calculating their Teleconnect Program reimbursement claims.

NEED-BASED TARGETING

The federal E-Rate Program provides the largest discount to schools serving the poorest students (as indicated by School Lunch Program eligibility) and in rural areas. The Teleconnect Program provides a flat 50-percent discount to all schools (after the E-Rate discount). As a result, the Teleconnect Program reduces the need-based targeting of the federal program by giving a larger discount to schools with fewer students from low-income families. For example, the Teleconnect Program provides a 40-percent discount to schools in the most affluent areas (after the 20-percent E-Rate discount) and a 5-percent discount to schools in the poorest and rural areas (after the 90-percent E-Rate discount). Relatively little of the Teleconnect Program's benefit appears to be targeted at schools with the poorest students, who presumably have the least access to the Internet and other advanced telecommunications services.

OTHER ISSUES

Facility Special Repairs. The Governor's Budget includes \$435,000 (special funds) for specific special repairs at the PUC's San Francisco headquarters building. The current-year budget included \$421,000 for one-time repair costs.

Finance Letter Request--Universal Lifeline Telephone Service (ULTS) Augmentation. In an April 1, Finance Letter, the administration requested an augmentation of \$11.263 million from the ULTS Fund. This augmentation will increase the appropriation for the ULTS program in 2004-05 to \$251.6 million. The ULTS program provides discounted basic telephone services to low-income households. The augmentation is requested to align spending authority with the PUC's spending estimate for the ULTS program, which was adopted too late for inclusion in the Governor's Budget.

No issues have been raised regarding these proposals. Accordingly, staff recommends approval of these requests.

ITEM 8665 CALIFORNIA CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

The California Consumer Power and Conservation Financing Authority (California Power Authority, or CPA) was created by Chapter 10x, Statutes of 2001 (SB 6x, Burton), to assure a reliable supply of power to Californians at just and reasonable rates, including planning for a prudent energy reserve. The CPA was also created to encourage energy efficiency, conservation, and the use of renewable resources. The CPA is authorized to issue up to \$5 billion in revenue bonds to finance these activities. Chapter 10X also directs that the operation of the authority sunset on January 1, 2007.

ISSUE 1: TERMINATION OF THE POWER AUTHORITY

The budget proposes to eliminate the CPA, effective September 30, 2004. (Current law sunsets the authority's ability to initiate or finance new projects on January 1, 2007.) The administration contends that the CPA has had limited success in fulfilling its statutory objectives and that CPA has not achieved financial self-sufficiency as intended when it was created. In addition, the administration is of the view that other state agencies and private entities already perform activities similar to that performed by CPA.

Specifically, the proposal would eliminate three positions and five contract positions and an administrative budget of \$3.4 million. The budget provides \$424,000 to CPA through September 30, 2004 for purposes of winding down the agency, including finishing remaining work and terminating existing contracts.

BACKGROUND

The CPA was established during early 2001 at the height of the California electricity crisis with the broad charge of assuring a reliable supply of power to Californians. In order to meet these goals, CPA was authorized to purchase, lease, or build new power plants using revenue bond authority to supplement private and public sector power supplies, and was granted eminent domain powers. At that time, the state's deregulated electricity market structure had disintegrated. The investor-owned utilities (IOUs) were essentially bankrupt, the Power Exchange had closed down, and the state was spending billions of dollars buying power at very high prices on the short-term market in order to maintain electricity supplies to the IOU service territories. It was anticipated that the CPA might act to acquire and operate existing power plants or to finance or build new ones in the event that the market could not or would not supply adequate electricity to the state or that other financing mechanisms were unavailable. Consistent with this approach, the Legislature provided that Energy Commission certification of power plant siting proposals would revert to the CPA, under certain circumstances, if the project owner failed to proceed with construction.

The CPA also was charged with encouraging energy conservation and the use of renewable energy sources, and its revenue bond financing authority included natural gas transportation and storage projects recommended by the Public Utilities Commission (PUC), as well as retrofitting old and inefficient power plants. Finally, the CPA was also required to develop an energy resource investment plan for California.

Outstanding Loan. Existing law requires the CPA to be self-financing. Initially, the General Fund provided the authority with a \$10-million start-up loan, which was only partially drawn down. In previous budgets, the Legislature replaced the General Fund loan with loans from special funds. Although the authority has earned some project revenues it has not been able to repay its startup loan. The budget indicates that at the end of the current year, the CPA will still owe \$5.2 million to the Energy Resources Programs Account in the General Fund (which receives electricity surcharge moneys that primarily support the Energy Commission).

No Power Plants Financed. It was anticipated that the CPA would support itself primarily from fees earned by issuing bonds to finance power plants, along with other types of project revenues. However, the CPA has not financed any power plants or other large energy projects. That is the reason that the authority has not been able to repay its loans.

Dependent on Others. Although the CPA has authority to issue billions of dollars of revenue bonds, successful marketing of any bonds requires a secure stream of project revenues. Unlike municipal utilities such as the Los Angeles Department of Water and Power or the Sacramento Municipal Utility District, the CPA has no service territory and no ratesetting authority. Consequently, any project that it could finance successfully requires a revenue stream guaranteed by someone else. For example, a successful financing might be possible for a power plant to provide electricity under a PUC-approved contract with an IOU. However, projects with this type of guaranteed revenue stream generally can obtain market financing without the assistance of the CPA.

There have been Some Accomplishments. The CPA established the Demand Reserves Partnership Program that contracts with commercial and industrial customers to conserve energy during peak energy usage periods (typically the summer). This program contributed about 250 megawatts of dispatchable load reduction (primarily from the Department of Water Resources) during the summer of 2003 at relatively cost-competitive prices. The CPA issued \$28 million of revenue bonds in April of 2003 to support the California Energy Commission's (CEC's) Energy Efficiency and Conservation Loan Program. This program provides loans to schools, cities, counties, non-profit hospitals, and public care institutions to make energy conservation improvements on their facilities. The CPA also has played a role in coordinating state energy planning and facilitating the siting of a peaker plant.

LAO OPTIONS

LAO questions whether elimination of all of the functions of the CPA may be premature, given the continued uncertainty over the adequacy of the state's electricity supplies. LAO offers the following two options to continue selected functions of the CPA:

1. Retain CPA, But Only as a Self-Supporting Entity. CPA estimates that it will generate approximately \$1.2 million in revenues from its administration of its Demand Reserves Partnership Program in the current year. LAO believes that the CPA could continue to play a useful role at a level where its operations are supported solely by these revenues.

2. Transfer Certain Functions to Other Existing Agencies. As an alternative to retaining the CPA, the Legislature could eliminate CPA as proposed by the Governor, but transfer some of its functions to other existing agencies. Specifically, LAO would recommend transferring the bonding authority to an existing financing authority which has a consistent mission with CPA's bond financing authority (for example, the California Infrastructure Bank) and transferring CPA's

Demand Reserve Partnership Program to another entity so that it may continue to provide energy savings over the next several years (CPA's program currently has a contract to deliver energy savings that does not expire until 2007). This program could be transferred to another existing state agency involved in promoting energy conservation, such as CEC or possibly the Department of Water Resources (DWR).

COMMENTS

Related Pending Legislation. AB 2967 (La Malfa) and SB 1716 (Ducheny) each would abolish the CPA and transfer any remaining funds and obligations to the Energy Commission. AB 2967 was set for hearing in the Assembly Utilities and Commerce Committee on April 12th (the day prior to this subcommittee hearing).

Infrastructure Bank. The Infrastructure Bank also has the authority to issue revenue bonds for the construction or financing of electric power plants and other energy facilities. The bank, however, cannot be the operator of a power plant and it does not have the power of eminent domain.

Are Any Major Financings Imminent? Staff is not aware of any major power plant projects whose sponsors are currently seeking financing from the CPA.

Where Should Demand Response Program Go? In the event that the CPA is eliminated, the Demand Response Program will need a home. Candidates would include the Energy Commission and DWR. The CPA and the Department of Finance (DOF) should provide the subcommittee with their recommendations concerning the location of the program.

Could DWR Do It for Less? The CPA currently receives more than \$1.2 million in annual revenues for administration of the Demand Response Program. This would be the source of funding to continue the CPA under the LAO option (although it would not provide for any loan repayment). Since most of the demand reduction is provided by DWR, the CPA, LAO and DOF should comment as to whether DWR could take over administration of the program at a lower cost.