

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

**Assemblymember Rudy Bermudez, Chair**

**WEDNESDAY, APRIL 20, 2005, 1:30 PM**  
**STATE CAPITOL, ROOM 437**

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## ITEMS TO BE HEARD

### OPEN ITEMS

#### **ITEM 9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS**

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This item funds the payment of health and dental insurance premiums for annuitants. While the appropriation from this item is made from the General Fund, approximately one third of the total costs are recovered from special funds through pro rata (allocation of administrative costs) charges.

#### **ISSUE 1: FEDERAL PRESCRIPTION DRUG PROGRAM**

The Administration's estimates for this item includes offsetting savings of \$34.5 million for one-half year associated with the implementation of the Medicare Part D prescription drug program that becomes effective January 1, 2006. For retiree programs that provide coverage that exceed the coverage in Part D, the federal government should subsidize a portion of the prescription costs. The estimated value of this subsidy is \$611 per Medicare enrollee for 2006.

The Public Employees' Retirement System (CalPERS) has expressed concern that it may be premature to adopt this reduction to premiums.

The subcommittee may want to seek updated information from the Administration and CalPERS regarding the level of estimated savings resulting from the implementation of the Medicare Part D program.

**April 6 Action:** Held over to get additional information from the Administration regarding more accurate information on the savings from this federal program.

## NEW ITEMS

### **ITEM 0550 SECRETARY FOR THE YOUTH AND ADULT CORRECTIONAL AGENCY**

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The Youth and Adult Correctional Agency is headed by the Secretary of the Youth and Adult Correctional Agency who reports to the Governor. The agency secretary oversees the: Department of Corrections; Department of Youth Authority, Youth Authority Board; Board of Prison Terms; Board of Corrections; Narcotic Addict Evaluation Authority, and Commission on Correctional Standards and Training. Agency efforts include: intervention to at-risk populations; and successful integration back to society.

#### **ISSUE 1: RANDOM DRUG TESTING**

SB 620 (Speier) February 22, 2005 (version) would require the Secretary of Youth and Adult Correctional Agency to implement a mandatory testing program for drugs and contraband. This testing would include staff, state officials, and vendors.

**ISSUE 2: INMATE HEALTH CARE**

SB 616 (amended April 6, 2005) would limit the Department of Corrections pay reimbursement rates for inmate medical services to 115 percent of the Medicare rate. In addition, it would require the department to develop a pilot program with the Liver Clinic at the San Francisco Veterans Affairs Medical Center for the better treatment of Hepatitis C for inmates. In addition, it would require the department to insure that parolees receive proper treatment for this disease.

**ISSUE 3: REORGANIZATION**

The Administration proposed the reorganization of the Youth and Adult Correctional Agency to the Department of Corrections and Rehabilitation (GRP 1).

GRP 1 was submitted to the Legislature February 22, 2005. According to law, GRP 1 would become law on May 5, 2005 and become operational on July 1, 2005, unless either the Assembly or Senate rejects the plan by May 4, 2005.

Concerns have been raised about the costs associated with the implementation of GRP 1. The implementation is expected to require substantial, yet unquantified amounts of money for technology and educational, vocational and treatment programs. The Governor's Budget includes a \$95 million unallocated reduction in the California Department of Corrections.

The California Department of Corrections has stated that those reductions would likely mean a 28% reduction in programming. The Legislative Analyst estimates additional short-term costs associated with the implementation of the reorganization plan. It further states that in order to achieve long-term savings, the reorganization would have to substantially reduce the level of recidivism thus reducing the number of inmates returning to custody.

The Agency has not identified any additional funds that would be needed to implement the reorganization of the Youth and Adult Correctional Agency to the Department of Corrections and Rehabilitation for the 2005-06 fiscal year.

**ITEM 0820 DEPARTMENT OF JUSTICE**

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The Attorney General has the responsibility to enforce the laws of the state in a fair and uniform manner. The Office represents the people in all matters before the Appellate and Supreme Courts of California and the United States. It also serves as counsel to State officials, boards, commissions and departments.

The Department of Justice assists local, state, and federal law enforcement agencies in the investigation and analysis of crimes as well as providing personal and property identification for these agencies.

The Governor's Budget proposes a budget of \$688 million in 2005-06. This is an increase of \$11 million over the estimated current year budget. The budget year increase in General Fund spending totaled \$3.6 million.

**ISSUE 1: PROPOSITION 69 WORKLOAD**

Prior to November 2004, state law required those convicted of a serious or violent felony offense as well as those required to register as a sex offender, to submit fingerprints and a blood sample for DNA analysis to be included in the state DNA Data Bank.

Proposition 69 was approved by the voters November 2, 2004. This would expand the responsibilities of law enforcement to include the collection of DNA samples, thumbprints and palm prints for persons convicted of any felony, registered sex offenders, and adults arrested for specified sexual offenses and violent crimes effective November 3, 2004. As of 2009, adults arrested and charged with any felony offense would be required to submit these samples.

Chapter 3, Statutes of 2005, SB 22 (Migden), an urgency measure, provides for a \$7 million four-year General Fund loan (with interest) and makes a \$4 million appropriation from the DNA Identification Fund to implement the DNA Fingerprint, Unsolved Crime and Innocence Protection Act to intended to ensure sufficient resources are available to collect DNA samples and palm prints from qualifying felons and specified arrestees as required by Proposition 69, approved by the voters on November 2, 2004. Funding to the DNA Identification Fund would be through a \$1 assessment to every \$10 collected in criminal and traffic penalties. (Assessments totaling \$25 per \$10 in penalties plus \$20 fee). Separate funding for 2005-06 would be pursued through the budget process.

The additional assessment is estimated to result in annual revenue of \$15 million to the DNA Identification Fund. Of this amount, 70 percent would be directed to the state in the first two years, 50 percent in year three, and 25 percent (\$3.75 million) thereafter. The balance of the revenues would be directed toward local governments in support of local costs incurred in compliance with this initiative. Counties are directed to transfer revenues into the Fund on a quarterly basis.

The \$11 million appropriated in SB 22 would support the processing of 65,000 samples. This would include costs to support 40 criminalist positions (\$4 million) 233,000 buccal swab kits for state and local law enforcement agencies (\$1 million), equipment and software related to the analysis of the sample (\$1 million) and infrastructure improvements (\$5 million). The February 7, 2005 analysis by the Senate Appropriations Committee estimated the need for 237,000 new DNA samples would be generated each year for the first four years of the program.

The proposed funding support from the DNA Identification Fund is not expected to be sufficient to support the operations of the DOJ. While revenues from the enhanced assessment of criminal and traffic penalties is estimated at \$3.75 million annually after the third year, the estimated costs to implement the additional workload associated with this initiative to the Department is at least \$17 million annually. The Legislative Analyst's Office analysis of Proposition 69 estimated state costs of \$20 million a year. As a result, it is questionable if the loan identified in SB 22 would ever be repaid to the General Fund other than through an increased augmentation to the Department from the same source.

**ITEM 1920 STATE TEACHERS' RETIREMENT SYSTEM**

The State Teachers' Retirement System (STRS) provides retirement related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college level. The System provides three types of benefits; services retirement benefits, determined on the basis of member's age, years of service and final compensation; survivor benefits; and disability benefits.

The STRS board has twelve members; four ex-officio members including the Superintendent of Public Instruction, State Treasurer, State Controller, and the Director of Finance; three public members; one retiree of STRS; one member that is either a school board member or community college trustee; and three representatives elected by STRS members.

The main objectives of STRS include: the maintenance of a financially sound retirement system; the maintenance of efficient administrative operations; continuous improvement of the delivery of benefits, products and services to STRS members; and the development and improvement of the benefits and products to STRS members.

**ISSUE 1: STATE SHARE OF RETIREMENT COSTS – CONFORMING ISSUE**

The Governor's Budget proposes to shift part of the state's current payment into the State Teachers' Retirement System to school districts and community college districts. It also appears (details are unavailable) that he proposes to eliminate an existing requirement that the state pay a surcharge to STRS (equal to approximately 0.5% of teacher payroll) when there is an unfunded obligation or a normal cost deficit associated with benefits in effect on July 1, 1990. (This surcharge would be expected to be triggered for the 2004-05 fiscal year.) The Governor's proposals would not affect an existing state contribution for purchasing power benefits, equal to 2.5% of compensation. This state payment will contribute \$581 million in 2004-05.

The Governor's proposal would result in approximately \$469 million in General Fund savings (non-Proposition 98 savings), plus an additional \$92 million in savings from the elimination of the surcharge for unfunded obligation. However, these savings assume that the state would not be required to re-bench Proposition 98 upwards by the same amount, in which case the proposal would not result in any savings

In the February 2005 meeting, the STRS board voted to oppose the Administration's proposal.



As part of its discussion regarding Item #6300, State Contributions to the State Teachers' Retirement System, the budget subcommittee No. 2 heard this issue at its March 29 hearing, and took action to refer the issue to Subcommittee No. 4 with a "no" recommendation. Subcommittee No. 4 has indicated that only the STRS (Item #1920) operating budget is part of its jurisdiction and that the state contribution portion is under Subcommittee No. 2's jurisdiction. On April 12, 2005, subcommittee No. 2 took action to deny the Administration's proposal to transfer retirement costs to the school districts and to reject the accompanying trailer bill language. The Senate Budget Committee took the similar action associated with their discussion of Item #1920, State Teachers' Retirement System.

As both the Assembly and Senate took similar actions regarding the transfer of the teacher's retirement liability, this subcommittee may want to vote to concur with the actions of Assembly Budget Subcommittee No. 2 with the intent to take action similar to the Senate Budget Committee. The purpose of this concurrence would be an attempt to avoid the issue from becoming a conference item.

**ISSUE 2: INVESTMENT OF FUNDS**

STRS has created a Business Diversity and Inclusion Committee to formulate and recommend inclusion practices for underrepresented businesses. At its first meeting on August 24, 2004, the Committee outlined a plan to meet three goals: outreach and mentoring; information gathering; and policy review. Plans for the second year include structure, focus and activities.

The activities of STRS include:

- The committee proposes to direct \$5 to \$15 million of private capital investments as part of the CalSTRS/Banc of America Capital Access Fund partnership, to provide goods and services to underserved markets. The Committee hopes to obligate the funds by June 2005.
- In June 2005, a conference in San Francisco will be held as an educational forum to discuss investments in underserved markets.
- CalSTRS New and Next Generation Manager Program proposes to invest \$100 million to private equity managers raising their first or second fund.
- Developing Manager Program manages \$600 million through 28 emerging firms owned by minorities and women. STRS also has identified 3 core managers controlling \$2 billion.
- Contracting to develop a database of financial services providers that include basic information of emerging firms and the services they provide. This database would include the identification of businesses owned by minorities, women, and disabled veterans.
- Development of a pamphlet on partnerships between CalSTRS and new capital investment firms.
- Development of a college intern program.

**ITEM 5480 COMMISSION ON CORRECTIONAL PEACE OFFICER STANDARDS AND TRAINING**

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The mission of the Commission on Correctional Peace Officers' Standards and Training (CPOST) is to enhance the training and professionalism of the state's correctional peace officers. The Commission's authority includes the approval of new or the modification of existing correctional training programs.

The Governor's Budget proposes \$1.1 million in the budget year. This is substantially the same level of funding as in the current year.

**ISSUE 1: APPOINTMENTS TO THE COMMISSION**

CPOST consists of six members; three members representing management, two appointed by the director of the Department of Corrections and one from the director of the Department of Youth Authority; three of the members represent labor, two of the members are represent members, and one represents supervisors. All of the labor representatives are nominated by the California Correctional Peace Officers Association and appointed by the Governor. All members have designated alternates that may vote in place of the primary member.

Currently there are three management and two labor representatives on the commission. The proposed reorganization of the Youth and Adult Correctional Agency proposes to consolidate the Board of Corrections (15 members) and CPOST (six members) into a 17 member Correctional Standards Authority. Under this proposal, the Authority will include two labor representatives, one from local employees, and one from state employees. This represents a net reduction of three representatives from the existing membership composition. In addition, the membership of the authority would be at the pleasure of the Governor as opposed to a 3 year (for the Board of Corrections) or 4 year (for CPOST) appointment.