

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

Assemblymember Juan Arambula, Chair

TUESDAY, APRIL 29, 2008, 1:30 PM
STATE CAPITOL, ROOM 447

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CONSENT ITEMS

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

ISSUE 1: BUDGET BALANCING REDUCTION

The Governor's Budget proposes a reduction of 10% (\$794,000 General Fund) to the Capitol Maintenance and Repair program. This program supports ongoing maintenance and repair of the State Capitol including development of an infrastructure study and Capitol Park Master Plan.

COMMENTS

This will reduce the funding available to implement maintenance and repairs, which will delay overall implementation of those projects currently scheduled for the State Capitol. The list of projects to be completed is ranked by priority, thus primarily delaying lower priority projects.

ISSUE 2: RONALD REAGAN BUILDING

The Governor's Budget proposes authority for 14.0 positions to perform custodial work at the Ronald Reagan Building. Funding for these positions would be realigned from existing resources within the Building and Property Management Branch (BPM) of DGS.

COMMENTS

DGS proposes to fund the requested positions out of existing resources within the recurring maintenance budget of the Building Rental Account. This will lead to a minimal but adverse impact on deferred maintenance and operations in the 28 buildings supported by the account.

ISSUE 3: CALTRANS DISTRICT 3

The Governor's Budget proposes 20.0 positions and \$2.9 million (Service Revolving Fund) to manage and operate the new California Department of Transportation (Caltrans) District 3 Marysville office building.

COMMENTS

The new building is currently under construction, but is projected to be ready for occupancy in August 2008.

ISSUE 4: BOARD OF EQUALIZATION – OPERATIONS AND MAINTENANCE

The Governor's Budget proposes 14.0 positions and \$808,000 (Service Revolving Fund) in BY+1 to adequately staff the operations and maintenance (O&M) of the Board of Equalization Building in Sacramento. The BY costs of this proposal would be funded through redirection of existing resources.

COMMENTS

DGS provided custodial and engineering services at this building while it was under BOE ownership; however, now that DGS has full responsibility for the building (the Legislature approved the transfer of ownership last year), inadequate staffing levels need to be corrected.

ITEM 8660 Public Utilities Commission**ISSUE 1: MOBILE HOME PARK AND PROPANE GAS SAFETY PROGRAM**

The Governor's Budget is proposing \$62,000 (PURA) and 1 position on a limited term basis to reduce the backlog in the Mobile Home Park and Propane Gas Safety programs.

ISSUE 2: EXPANSION OF BILINGUAL SERVICES

The Governor's Budget is proposing \$132,000 and 2 positions to expand its bilingual services to the public. This proposal will allow for the hiring of two permanent Spanish speaking interpreters and allow the CPUC to increase its contracting for other language such as Hmong and Russian that have growing use in the state.

ISSUE 3: AB 1513 (BLAKSLEE) IMPELMENTAION

The Governor's Budget proposes \$396,000 from the Public Utilities Commission Utilities Reimbursement Account and four positions in order to implement AB 1613 (Blakslee).

COMMENTS

AB 1613 (Blakeslee, 2007) authorizes the Public Utilities Commission (PUC) to require electrical corporations to establish a tariff or contract for the purchase of excess electricity generated by combined heat and power units of up to 20 megawatts at a price to be determined by the PUC. AB 1613 also requires the PUC to establish a pilot program to allow customers to finance the purchase of combined heat and power units. These combined heat and power units are required to meet specified efficiency and emissions requirements.

VOTE ONLY ITEMS

ITEM 8660 PUBLIC UTILITIES COMMISSION

ISSUE 1: BIOENERGY ACTION PLAN AND EXPANSION OF DISTRIBUTED GENERATION RESOURCES

The Governor's Budget proposes \$317,000 from the Public Utilities Commission Reimbursement Account and 3 positions to work on the Bioenergy Action Plan.

COMMENTS

The Governor's Executive Order S-06-06 directs the Public Utilities Commission (PUC) to initiate a new proceeding or build upon existing proceedings to encourage sustainable use of biomass and other renewable resources by the state's investor owned utilities. The Governor sets the following targets for the production and use of bioenergy: the state should produce a minimum of 20 percent of its biofuels within California by 2010; 40 percent by 2020; and 75 percent by 2050. In addition, the state should use bioenergy fuels to meet 20 percent of the overall renewable portfolio standard requirements. The PUC would use the requested staff to pursue policy and program opportunities, including a new tariff design to increase the use of bioenergy.

ISSUE 2: AB 1310 (LENO) IMPLEMENTATION

The Governor's Budget proposes 1 position and \$96,000 (PUC Transportation Reimbursement Account) in order to implement increased enforcement activities against illegal advertising by unlicensed charter party carriers as required by AB 1310 (Leno).

DGS VOTE-ONLY ITEMS – PART 1

Staff Comment:

If the proposed TBL is rejected, the following items will not have a funding source, and should also be rejected.

1. COBCP: Renovation of H and J Buildings—Patton State Hospital. DGS requests \$42.9 million (from proposed Earthquake Safety Bond proceeds) to create intermediate “swing space” and begin seismic renovations of four buildings at the hospital. Due to growth in the hospital population at all state hospitals, the Department of Mental Health is unable to relocate the patients during construction.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

2. COBCP: Structural Retrofit—Sierra Conservation Center, Jamestown Facility.

DGS requests \$1.7 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of Buildings E and F at the Jamestown Facility. DGS has determined these structures to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

3. COBCP: Structural Retrofit—CIW Walker Clinic and Infirmary, Corona. DGS requests \$5.2 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of both the Walker Clinic and Infirmary at Department of Correction’s California Institution for Women—Walker Clinic at Corona. DGS has determined this structure to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

4. COBCP: Structural Retrofit—Vacaville Correctional Medical Facility, Wings U, T, and V. DGS requests \$3.4 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the Vacaville Correctional Medical Facility, Wings U, T, and V. DGS has determined these structures to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

5. COBCP: Structural Retrofit—California Correctional Center, Vocational Building F, Susanville. DGS requests \$6 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the Vocational Building at the California Correctional Center in Susanville. DGS has determined this structure to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

6. COBCP: Structural Retrofit—Department of Mental Health (DMH) Metropolitan State Hospital – Wards 206 and 208, Norwalk. DGS requests \$4.1 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the DMH Metropolitan State Hospital – Wards 206 and 208, Norwalk. DGS has determined these structures to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

7. COBCP: Structural Retrofit—CDC CCI Tehachapi Chapels Facility (Building H).

DGS requests \$1.9 million (from proposed Earthquake Safety Bond proceeds) for seismic retrofit of the Chapels Facility (Building H) at the California Department of Corrections Tehachapi facility. DGS has determined this structure to be seismically deficient.

Staff Comment: The Legislature provided funding in FY 2006-07 and in the current year to complete preliminary plans and working drawings for this project.

8. COBCP: Structural Retrofit—Hospital B-50 at Lanterman Developmental Center, Pomona. DGS requests \$1.8 million (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of Hospital B-50 at Lanterman Developmental Center. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$39.4 million over seven years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

8. COBCP: Structural Retrofit—Metropolitan State Hospital – Vocational Rehabilitation Building. DGS requests \$361,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of Hospital B- 50 at Lanterman Developmental Center. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$39.4 million over seven years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

9. COBCP: Structural Retrofit—Metropolitan State Hospital – Wards 313 and 315,

Norwalk. DGS requests \$375,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of Wards 313 and 315 at Metropolitan State Hospital. DGS has determined these structures to be seismically deficient. Total project costs are expected to be \$5.5 million over three and one-half years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

10. COBCP: Structural Retrofit—Sonoma Developmental Center – Multipurpose Complex. DGS requests \$306,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of the Multipurpose Complex at Sonoma Developmental Center. DGS has determined these structures to be seismically deficient. Total project costs are expected to be \$4.0 million over two years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

11. COBCP: Structural Retrofit—Atascadero State Hospital – East West Corridor.

DGS requests \$292,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of the East West Corridor at Atascadero State Hospital. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$5.3 million over three years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

12. COBCP: Structural Retrofit—Metropolitan State Hospital – Volunteer Center.

DGS requests \$166,000 (from proposed Earthquake Safety Bond proceeds) to develop preliminary plans for the seismic retrofit of the Volunteer Center at Metropolitan State Hospital. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$2.2 million over two and one-half years.

Staff Comments: Staff notes that working drawings and construction funds would need to be funded in future years.

DGS VOTE-ONLY ITEMS – PART 2

Staff Comment:

The following Capitol Outlay requests have existing funding sources.

1. COBCP: Structural Retrofit—National Guard Armory, Stockton. DGS requests \$254,000 (Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990) for working drawings for the Stockton National Guard Armory. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$2.4 million over five years, with construction costs to be funded with proceeds from a proposed Earthquake Safety GO Bond.

Staff Comment: Staff notes that last year the Legislature approved funding of working drawings for a number of other structural retrofit projects using the same funding source (remaining Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990 fund balance). Consistent with those prior approvals, the Legislature may fund the development of working drawings and reserve the decision on how to fund the construction phase until a later date.

2. COBCP: Structural Retrofit—Metropolitan State Hospital – Vocational Rehabilitation Building. DGS requests \$361,000 (Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990) to develop preliminary plans for the seismic retrofit of the Vocational Rehabilitation Building at the Metropolitan State Hospital. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$4.6 million over two years.

Staff Comments: Similar to Item #1 above, this proposal is consistent with seismic retrofit requests approved last year. Staff notes that DGS anticipates requesting working drawings and construction funding in FY 2009-10 and FY 2010-11, respectively. The Legislature may fund the development of preliminary plans and reserve the decision on how to fund the working drawings and construction phase until a later date.

3. COBCP: Structural Retrofit—Metropolitan State Hospital – Library. DGS requests \$334,000 (Earthquake Safety Public Buildings Rehabilitation Bond Fund of 1990) to develop preliminary plans for the seismic retrofit of the library building at the Metropolitan State Hospital. DGS has determined this structure to be seismically deficient. Total project costs are expected to be \$4.4 million over two years.

Staff Comments: Similar to Item #1 and 2 above, this proposal is consistent with seismic retrofit requests approved last year. Staff notes that DGS anticipates requesting working drawing and construction funding in FY 2009-10 and FY 2010-11, respectively. The Legislature may fund the development of preliminary plans and reserve the decision on how to fund the working drawings and construction phase until a later date.

ITEMS TO BE HEARD

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

The Department of General Services provides centralized services to state agencies in the following areas: telecommunications; management of state-owned and leased real estate; approval of architectural designs for local schools and other state-owned buildings; printing services; procurement of commodities, services, and equipment for state agencies; and maintaining the state's vehicle fleet. The Director of General Services also serves on several state boards and commissions.

ISSUE 1: OFFICE OF PUBLIC SCHOOL CONSTRUCTION

SCHOOL FACILITIES PROGRAM – FISCAL SERVICES STAFFING

The Governor's Budget proposes 7.0 positions (6 permanent and 1 limited term) and \$740,000 (School Facilities Fund) for the Office of Public School Construction (OPSC) to conduct audits under the School Facilities Program (SFP) and to establish an integrated audit information system.

BACKGROUND

Under the direction of the State Allocation Board (SAB), OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.

Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	\$7,350,000	\$903,813	\$475,997
Prop 55 (2004)	\$10,015,500	\$9,342,087	\$6,653,444
Prop 47 (2002)	\$11,400,000	\$11,284,811	\$9,675,482
Prop 1A (1998)	\$6,700,000	\$6,648,081	\$6,647,663
TOTAL	\$35,465,500	\$28,178,792	\$23,452,586

(*dollars in thousands)

SFP Construction Process. The current process for construction under the SFP can take more than nine years to go from application to apportionment, from funding to expenditure, and finally from the beginning to the end of the audit process (project closeout). The following table shows where the OPSC estimates each of the school facilities bonds in terms of the progression from fund apportionment to final closeout.

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	11/1998 to 10/2002	11/2002 to 12/2006	03/2004 to 05/2008*	12/2006 to 08/2011*
# of Projects Not Yet Apportioned* (\$ Amount)	0	8 (\$0.1 billion)	67 (\$0.7 billion)	2,215 (\$6.4 billion)
# of Projects Apportioned, But Not Closed (\$ Amount)	331 (\$2.5 billion)	2,117 (\$8.4 billion)	2,407 (\$9.1 billion)	615 (\$0.9 billion)
# of Projects Closed (\$ Amount)	2,126 (\$4.2 billion)	1,496 (\$2.9 billion)	111 (\$0.2 billion)	0
Closeout Period*	4/2000 to 3/2011	5/2003 to 5/2015	10/2005 to 10/2016	5/2008 to 1/2020

(*estimated)

OPSC Projected Audit Workload. According to OPSC, state regulations (Title 2 California Code of Regulations Section 1859.106) require OPSC to audit project expenditures of school districts within two years of receipt of the final expenditure report from the district. According to the regulations, the audit is conducted to ensure that districts are meeting statutory requirements with regard to their projects as well as assure that the district complied with all site acquisition guidelines.

According to OPSC, the bulk of the audit and closeout workload will hit in the next ten years. For example, OPSC indicates that its current audit workload of 1,400 projects worth \$7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, OPSC projects that the audit workload will increase to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years. In anticipation of this increase workload, OPSC is requesting 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC.

Audit Standards. According to OPSC, since 2000, OPSC Fiscal Services staff has recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP. However, concerns have been raised by the field with regard to the consistency of the standards by which these audits are conducted since OPSC does not have published or adopted audit standards. With

clear audit guidelines and audit training for staff, the SFP audit program would better ensure that bond awards are being spent appropriately.

Governor's Executive Order Regarding the Establishment of an Automated and Integrated Audit Information System. According to OPSC, under the Governor's *Executive Order S-02-07* the OPSC is required to establish an automated and integrated audit information system to provide better accountability and web accessibility to project information for all SFP projects. *Executive Order S-02-07* sets forth the Administration's plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

The Subcommittee may wish to ask OPSC to comment on their plans to meet this Executive Order and how they plan to automate and integrate their existing audit information system. There may be opportunities for OPSC to develop its system to allow better tracking of how bond dollars are actually spent and the tangible results they produce at school sites. This information might better inform policy makers in deciding when to initiate and how to size the next education bond.

COMMENTS

This item was heard by Assembly Budget Sub-committee 2, where they recommended that Sub-Committee 4 approve the 7 positions on a two-year limited-term basis with the direction to continue to look at:

- 1) Streamlining the hardship process (so that positions can be freed up to conduct audits;
- 2) Addressing the application backlog issues around new construction; and,
- 3) Addressing the concerns from the field with regard to the audit guidelines and whether there should be a regulatory process.

The rationale for this recommendation was that OPSC currently has about 8 staff that works on financial hardship applications. If the financial hardship process is streamlined, as is the intent of a working group established by the SAB, then many of those positions could be converted to audit staff. In a few years the Legislature could review workload and see if financial hardship staff could be shifted.

ISSUE 2: OFFICE OF PUBLIC SCHOOL CONSTRUCTION - ERP**WILLIAMS SETTLEMENT-PROGRAM SERVICES STAFFING FOR THE EMERGENCY REPAIR PROGRAM (ERP)**

The Governor's Budget proposes 2.0 positions and \$217,000 (General Fund) to process, review, and approve emergency repair requests from school districts seeking funding under the Williams Settlement.

BACKGROUND

Williams Settlement and the Emergency Repair Program (ERP). In August 2004, the state settled the *Williams v. California* lawsuit which aimed to ensure that students in low-performing schools have access to adequate teachers, instructional materials, and facilities. SB 6 (Alpert), Chapter 899, Statutes of 2004, as part of the legislative package implementing the Williams Settlement, created the ERP and established a procedure whereby districts could apply to the state for supplemental funding to address emergency facility needs (for schools in deciles one through 3). The settlement requires that the greater of \$100 million or half of all funds from the Proposition 98 Reversion Account go toward the ERP until the state has appropriated a total of \$800 million for the program.

The state has appropriated \$292 million towards this obligation, including a recent payment of \$100 million made during the 2008 special session. Expenditures from the ERP total \$167.8 million as of the March 26, 2008 SAB meeting, leaving a total of \$124.3 million for expenditure. According to the LAO, there are approximately \$380 million worth of applications pending approval and the LAO estimates that the ERP will run out of funds by October 2008.

Expenditures from ERF	
Year	Amount
2005-05	\$3.5 Million
2006-07	\$36.6 Million
2007-08	\$127.7 Million
Total	\$167.8
Remaining Balance	\$124.3

Staffing Need. The ERP was originally implemented as a reimbursement program in which eligible school districts were required to complete and make payment for the repair or replacements costs prior to submitting a request for funding. However, *AB 607 (Goldberg), Chapter 704, Statutes of 2006* changed the ERP to a grant program. Whereas the original reimbursement program design made ERP funds difficult for many districts to access, the switch to a grant model has increased demand for the funds significantly.

According to OPSC, each of the 2,230 schools that were eligible for the ERP as of July 1, 2007, will file 2.5 ERP applications over the course of the next three years, resulting in 5,125 ERP applications over that time period, or 1,708 applications annually. Currently, the OPSC estimates that there are approximately 1,400 ERP applications on its workload list and that the average processing time per application is approximately 160 days (this is above the OPSC's goal of 90 to 120 days).

OPSC further states that this projected workload would ordinarily justify 8.0 positions however OPSC is conservatively requesting 2.0 positions to address increased ERP applications.

COMMENTS

This item was heard by Assembly Budget Sub-committee 2, where they recommended that Sub-Committee 4 approve the 2.0 positions and \$217,000 (General Fund) for program staff for the Emergency Repair Program.

ISSUE 3: INFRASTRUCTURE STUDIES

The Governor's Budget proposes \$230,000 (Special Fund) for the preparation of infrastructure studies for older DGS owned buildings. These studies include review of all major building systems, as well as the buildings seismic safety and code compliance. The studies provide recommendations for repairs and other maintenance to extend the building's useful life.

DGS owns over 50 facilities and completes approximately 2-3 studies each year. The order in which buildings are reviewed is laid out in a 5-year capitol outlay and infrastructure plan. With over 40% of these facilities over 30 years old, there are many maintenance concerns that require studying.

A comprehensive list of findings, recommendations, and cost estimates that result from these studies become the "blueprint" for DGS to prioritize and schedule future work for the building.

COMMENTS

DGS has a baseline budget of \$247,000 for completion of these studies. This request nearly doubles that budget. The reasoning provided for the increase in funds is that recent experience has shown that the budgeted \$100,000 per study is insufficient for larger, older, and historic buildings.

These studies can save the state significant costs by prioritizing needed repairs, and determining when repair vs. replacement is the appropriate course of action.

The Subcommittee may wish to inquire the role of energy efficiency in these studies. Buildings constructed prior to the existence of the current energy code often present the opportunity for considerable energy efficiency savings. These studies should be sure to adequately review all potential energy efficiency issues, thus providing DGS with a set of potential upgrades that could save the state in energy costs. There are not currently any requirements in regards to these studies and what they must include.

ISSUE 4: SURPLUS SALES FUNDING

DGS requests \$500,000 (special fund) to continue value enhancement of surplus state property that is located at the Lanterman Developmental Center in Pomona and at the Los Angeles Civic Center (former First and Broadway State Office Building).

COMMENTS

The Legislature approved \$1 million (special funds) for value enhancement at the Lanterman and the Los Angeles Civic Center sites in the current year, and the Governor's Budget proposes additional resources to continue these activities. However, according to DGS staff, there have been delays to the activities funded in 2007-08, and the Department now believes the following resources would be needed in 2008-09:

1. **Lanterman** – Due to delays, DGS does not anticipate spending any of the \$500,000 appropriation in the current year. Instead, the Department proposes to push out the project study one year, and requests that the Legislature reappropriate the FY 2007-08 funding for FY 2008-09. In addition, due to a change in the scope of the study, the DGS anticipates spending no more than \$300,000.
2. **Los Angeles Civic Center** – Due to delays, the DGS does not anticipate spending any of the \$500,000 appropriation in the current year. Instead, the department proposes to push out all project phases one year, and requests that the Legislature reappropriate the FY 2007-08 funding for FY 2008-09.

As discussed last year, enhancing these properties could increase their value by millions of dollars and generate a high rate of return on the state's enhancement investment.

ISSUE 5: REAL ESTATE LEASING AND PLANNING SECTION

The Governor's Budget proposes 19.0 permanent and 4.0 limited-term positions and \$1.9 million (Service Revolving Fund) in order to address a backlog of leasing and planning workload.

According to DGS, there is currently a backlog of 1,486 hours (or 49.2 weeks) per staff person for leasing projects and 2,573 (or 85.22 weeks) per person for space planning projects. DGS indicates that the current backlog developed due to several factors including:

- (1) a recent spike in "unanticipated" workload such as the creation of the Department of Technology Services, the reorganization of the Department of Health Services, the downsizing of the Employment Development Department, the response to urgent mandates by the Department of Corrections, and the Governor's Green Building Action Plan;
- (2) increased work complexity due to very stringent requirements that buildings must meet in order to be suitable for occupancy by state agencies (for example, the construction and performance specifications in a standard state lease have grown from a 28-page to a 76-page document in just the last four years); and
- (3) the loss of experienced staff.

Under current staffing conditions, it takes 24-36 months to complete requests for new leased space. The goal of this request is to increase efficiency and complete projects within 12-24 months.

COMMENTS

While this BCP provides compelling evidence that additional resources may be needed, the assumptions made for out-year workload may be overstated. For example, the workload projections are based only on the past three years and do not include previous years in which the state faced fiscal crisis—2002/03 or 2003/04.

Further, the workload attributed to the Governor's Green Building Initiative is unclear, and workload for the DMV Real ID Program appears to be speculative. The Subcommittee may wish to have staff work with the Department to determine the actual augmentation necessary to meet the workload. The Subcommittee may also wish to request more information on the specific role of these staff in regards to DGS' green building efforts.

ISSUE 6: DESIGN SERVICES SECTION

The Governor's Budget proposes 7.0 positions and \$614,000 (Service Revolving Fund) in order to address a backlog of space planning projects within state-owned facilities.

This request is somewhat similar in nature to the previous request. DGS justifies the need for these positions based on:

- (1) Increased unanticipated workload
- (2) Need to address "high priority" projects in a timely manner
- (3) Growth in state-owned service area
- (4) And increased complexity of work

The Design Services Section is responsible for project management and construction of tenant improvements and special repairs for state-owned buildings.

COMMENTS

This division currently has 13 positions and is asking to essentially double that number. The division has shown a workload issue, but it is unclear if such a large increase is necessary in such a bad budget year.

One cause provided for the increased complexity of their work is the Governor's Green Building Initiative. The committee may wish to ask for more detail on this division's role in DGS' green building efforts.

ISSUE 7: ADDITIONAL LEGAL SUPPORT

The Governor's Budget requests 3.0 positions to address additional workload in the DGS Office of Legal Services (OLS). No funding is requested as the positions will be funded by redirection of funds.

According to the DGS, the positions requested are justified by increased workload due to the following:

- *Chapter 558, Statutes of 2005 (SB 954)*—As of January 1, 2007, the DGS was required to review multi-million dollar requests for proposals for information technology projects prior to their release to the public.
- *Strike Team Overseeing Prison Expansion*—An OLS staff was assigned to a team assisting to the Department of Corrections (CDCR) on prison facilities expansion.
- *FI\$Ca*—OLS staff are providing assistance to the Department of Finance with respect to information technology on the proposed financial management information system.
- *Green Technology*—OLS staff attend meetings and provide advice to the Green Action Team created by the Governor under *Executive Order S-20-04*.

COMMENTS

The Department has asked that this item be rejected, the Department of Finance concurs.

ISSUE 8: CLIENT RADIO

The Governor's budget proposes 22.0 positions and \$3.2 million (Service Revolving Fund) for implementation of public safety communications in accordance with a BCP in the 2008-09 Caltrans budget.

COMMENTS

All costs associated with the DGS portion of this project will be recovered through billing to Caltrans. Therefore the subcommittee's action on this request should conform to Budget Subcommittee 5's action on the corresponding Caltrans request.

ISSUE 9: BOND ACCOUNTING

DGS requests 5.0 positions and \$464,000 (Service Revolving Fund) to address increased bond accounting workload resulting from the \$7 billion in new State Public Works Board revenue bonds authorized under Chapter 7, Statutes of 2007 (AB 900) for the Department of Corrections and Rehabilitation Prison Bed Construction Project.

COMMENTS

Currently, no AB 900 projects have been approved, so the workload supporting this request is speculative. However, bond accounting workload will undoubtedly emerge, it's just not known exactly what it will be. The Department has current and future bond accounting responsibilities regardless of AB 900 workload.

The BCP presented focuses primarily on the workload created by AB 900, while discussions with staff presented a more general workload need. The Subcommittee may wish to direct the Department to provide more information to staff to defend the need for these positions without AB 900.

ISSUE 10: ARCHITECTURE REVOLVING FUND DEFICIT

The Administration has notified the Legislature via this BCP that there is a \$14.7 million deficit within the DGS' ARF, and new estimates by the Department show that deficit at well over \$20 million. DGS proposes a multi-faceted plan to resolve the ARF deficit, but the plan is still under discussion within the Administration.

The ARF is a depository for moneys appropriated for new construction, major construction and equipment, minor construction, maintenance and equipment, and other building improvement projects. According to DGS, the deficit condition has occurred in 11 of the past 12 years and a total of 902 projects have closed with a deficit since 2002-03, and is the result of several factors, including the following:

Constructions Delays – which lead to inflation in expected costs.

Rates set too far in advance – Hourly rates are set 5 years in advance

Cancelled projects – Costs are not refunded to this fund when a project is cancelled

Unfunded projects – Some projects have been funded out of this fund without a source for repayment.

COMMENTS

DGS has proposed a multi-pronged strategy to address the ARF deficit, but it does not appear to be a complete plan yet. Funding sources to reduce the ARF deficit are specified in general terms, but specific plans do not appear to be in place. The Subcommittee may wish to hold this item open until such information is available.

The Subcommittee may also wish to request information on why projects were approved without a funding source, and why projects were allowed to be completed with a deficit, leading to the current ARF deficit. These issues must be addressed as part of the Governor's proposal to ensure this doesn't continue happening.

The Department is developing a more complete proposal for the Senate already, the Committee may wish to ask that the same information be provided to Assembly staff for review of the proposed solution.

ISSUE 11: FINANCE LETTER - REFUND FEDERAL UNALLOWABLE COSTS

This request is for \$3.25 million to refund federal unallowable costs. DGS is primarily funded through fees collected from client agencies. The Federal Government also provides reimbursement for some costs. Some services the DGS provides are not allowed to be reimbursed by the Federal Government though, such as costs related to the Legislature and the Governor's Office. In fiscal years 2002-03 through 2004-05, some of these costs were included in the calculation to determine the overall DGS rates for client agencies. The state is required to refund the unallowable costs that were included in rates charged to the federal government during that time.

The Governor's Budget specifies that over \$17 million unallowable costs were included in setting reimbursement rates during the specified time period. \$3.25 million is the portion of that which was paid by client agencies using federal funds.

Additionally, the state must pay interest on that funding as well, charged at the state's internal rate of return (rate of the Pool Money Investment Account).

COMMENTS

The Department of Finance reached an agreement with the U.S. Department of Health and Human Services. The state was allowed to delay repayment of these funds until no later than September 1, 2008 and pay interest at the state's internal rate of return. If the funds are not repaid by September 1, 2008, interest will begin accruing at the current Private Consumer rate, which will likely be higher.

ISSUE 12: FINANCE LETTER – OFFICE OF ADMINISTRATIVE HEARINGS

This request is for approval of 3.5 positions and \$357,000 (Service Revolving Fund) for the Special Education Dispute Resolution Program.

In 2005, the Office of Administrative Hearings (OAH) entered into a 3 year agreement with CDE to provide administrative hearings and mediations service to disabled school children as required by Federal and State laws and regulations. This agreement was amended and expanded later that year, and will be expiring at the end of this fiscal year. According to the Department, CDE has expressed its desire to continue having OAH provide these services, but there is no new agreement in place yet.

COMMENTS

The agreement with CDE for continued and expanded services has not yet been finalized. Details on this agreement may help staff evaluate the need for these positions. The Subcommittee may wish to ask the LAO for an analysis of the workload need in this proposal.

OAH will fund the full cost of these positions.

ISSUE 13: FINANCE LETTER – OFFICE OF STATE PUBLISHING (OSP)

This request is for authorization for 2.0 additional staff positions required to meet the workload resulting from a contract with the Department of Public Health for the development and revision of educational materials and forms.

The Women, Infant, and Children (WIC) program under the Department of Public Health contracts with OSP to print and distribute publications, brochures, and forms. This program is supported by federal funds, and the current contract, for \$2 million, expires at the end of this fiscal year.

COMMENTS

The OSP plans to fund the positions through redirection of existing resources. The new proposed contract is only for 3 years however. The Subcommittee may wish to inquire what will happen to these positions if the contract is not renewed.

This is a fee for service request with both parties in agreement.

ISSUE 14: FINANCE LETTER – BUILDING AND PROPERTY MANAGEMENT

This request is for additional authority of 17.0 positions to provide custodial service to the Department of Technology Services and the Department of Motor Vehicles. The Department of Finance has informed staff, however, that the 10.5 positions requested for DMV should be removed from the proposal, leaving a request of 6.5 positions for DTS. Funding for these positions is projected to be from existing resources.

This will bring the custodial services under DGS, utilizing civil service employees rather than contracting this work out.

COMMENTS

These positions will be funded by DTS who has requested the services, and DGS only requires position authority to enable them to provide the services requested.

ISSUE 15: EARTHQUAKE SAFETY BOND ACT OF 2008 – TBL

The Governor's Budget proposes TBL to place a \$300 million general obligation (GO) "earthquake safety" bond measure on the November 8, 2008 ballot.

The bond proceeds would be used to fund state building or facility projects determined to be eligible for retrofitting, reconstruction, repair, replacement, relocation, or other seismic hazard abatement consistent with the process specified in the Earthquake Safety and Public Building Rehabilitation Bond Act of 1990.

COMMENTS

The decision to place another GO bond before the voters is a policy choice for the Legislature that should be taken up outside the budget process, consistent with past GO bond decisions. Staff notes that the Governor proposes to fund a number of "seismic safety" Capital Outlay BCP's from proceeds of the proposed earthquake safety bond. These items appear in the "Vote-Only" portion of this agenda (below). If this item is rejected, they should all be rejected as well, but noting that should a funding source be identified, they can be re-evaluated.

CAPITOL OUTLAY

ISSUE 1: RENOVATION OF H AND J BUILDINGS – PATTON STATE HOSPITAL – FINANCE LETTER

This request is for reappropriation of the working drawing funds (\$2,017,000) for the renovation of buildings H and J at Patton State Hospital. The original appropriation was approved in 2007/08, available through June 2008. DGS requests these funds to create intermediate “swing space” and begin seismic renovations of four buildings at the hospital. Due to growth in the hospital population at all state hospitals, the Department of Mental Health is unable to relocate the patients during construction.

In item 1 of Vote Only Issues – Part 1 (above), DGS requests \$42.9 million (from proposed Earthquake Safety Bond proceeds) for this purpose. This Finance Letter just requests reappropriation of existing funds for working drawings, it does not require a new bond issuance.

COMMENTS

This proposal is consistent with seismic retrofit requests approved last year. The Legislature may fund the development of working drawings and reserve the decision on how to fund the construction phase until a later date.

ISSUE 2: SACRAMENTO PUBLIC SAFETY COMMUNICATIONS DECENTRALIZATION – FINANCE LETTER

This request is for continuation of funding in the amount of \$812,000 to proceed with preliminary plans for the relocation of critical public safety communications from the top floor of the Resources Building in Sacramento.

Funding was provided in 2007-08 from a variety of sources including the State Highway Account, Motor Vehicle Account, Fish and Game Preservation Fund, Earthquake Safety and Public Buildings Act of 1990, and reimbursements from the Department of Water Resources.

This project anticipates future funding requests of \$3 million in 09-10 for working drawings and \$22 million in 10-11 for construction.

COMMENTS

This proposal is consistent with requests approved last year. The Legislature may fund the development of preliminary plans and reserve the decision on how to fund the working drawings and construction phase until a later date. The current proposal for construction costs includes, in part, the proposed bond funds addressed above.

ISSUE 3: LIBRARY & COURTS BUILDING RENOVATION – BCP

The Governor's Budget proposes a reappropriation of construction funds (\$43.7 million Service Revolving Fund) for renovation of the Library and Courts building in Sacramento. Funds were originally approved in 2005-06 to proceed to bid by June 30th, 2008. During development of the preliminary drawings, plans had to be changed to account for no longer being able to allow continuous occupancy of the building during construction.

COMMENTS

This will prevent these funds from being lost for availability for use on this project. Staff has no concerns.

ISSUE 4: LIBRARY & COURTS BUILDING RENOVATION – FINANCE LETTER

This Finance Letter requests, on top of the reappropriation of funds in the previous item, a supplemental augmentation of \$15.958 million (Service Revolving Fund) for the same Library and Courts Building Renovation. This represents a 32.5% increase in project construction costs.

DGS attributes the cost increases to:

- 1) Availability of more detailed drawings on which to base estimates,
- 2) Delay of construction,
- 3) Rapid escalation in costs for raw materials and increased labor rates,
- 4) Program efficiency enhancements

COMMENTS

Some of these costs are, relatively, unavoidable. The new detailed drawings provided new information that showed increased project costs. Those changes caused a delay in construction which causes inflation in the cost estimates for labor and materials.

There is also an increase in costs by \$2.4 million dollars for an increase in the scope of the project. A large part of the project changes had to do with a realization that the project could not be completed without relocation of staff, as was originally intended. This required temporary relocation of the tenants.

Library and Courts staff are currently both divided between 900 N Street, and this building. In discussions about a temporary move of staff, it was decided that operational efficiencies could be achieved by permanently moving all Court staff into this building once renovation was complete. This will allow all Court staff to work in the same building, which they claim will be much more efficient. Making this change permanent however, requires an estimated \$2.4 million in tenant improvements to facilitate the change. These costs were not part of the originally approved project scope.

The proposal does, however, have merits in terms of whether or not to do this permanent move. If it is ever going to be done, now is the time. With moving and construction already in the

plans, the costs for doing this move separately at a later date would be significantly more expensive.

This is of particular concern because working drawings are already 75% complete, and this change would require additional funding not just for tenant improvements, but to redo the working drawings that have been in preparation for the current plan and scope. The Subcommittee should consider both the merits of this request for increased scope as well as the procedural concerns that come with a request so late in the process.

The Subcommittee may wish to consider whether this is an appropriate increase in scope for this project. LAO and DOF can provide information on what alternatives exist for the committee.

The Subcommittee may wish to ask the Department what savings and efficiencies will be received from this added expenditure, and how they plan to quantify that.

OTHER ITEMS TO BE HEARD UNDER DGS

ISSUE 1: GREEN BUILDING AND DGS

Last year DGS was provided with two BCP's in regards to their green building efforts. One was for approximately \$3 million for LEED certification of existing buildings. This funding is to be provided for 3 years to implement LEED certification. It is staff's understanding that DGS now hopes that with changes in the method of certification allowed by LEED (volume registration), this funding may allow certification of the entire state-owned building portfolio.

The second BCP provided 5 positions to develop best practices and train DGS staff on LEED issues and how to incorporate them into buildings. The intent was to have DGS staff trained prior to the end of the contract provided in the first BCP, thereby bringing their expertise in-house. DGS reports that 3 of these positions have been filled, development of the best practices is underway, and that their training plan still has them on track to have expertise internalized within the time frame specified.

Also as part of their green building efforts, DGS has benchmarked all state-owned buildings to enable tracking of improvements in energy efficiency and other operations. The Subcommittee may wish to ask staff to work with DGS to get information on current data collected and determine appropriate reporting requirements.

COMMENTS

The Governor's executive order S-20-04 requires all new and renovated state-owned and state funded buildings to be built to a minimum LEED "silver" certification. The Subcommittee may wish to ask why these requirements aren't in Code. Further, the Subcommittee may wish to ask staff to work with DGS in regards to building code requirements for state and other buildings. It is likely that in the course of developing best practices under last years approved BCP, the Department has determined cost-effective measures that should be incorporated into all building projects. It may make sense to incorporate these measures into the California Building Code (Title 24). These best practices may also provide useful and money saving information for commercial buildings as well. The resources being expended by DGS should be utilized to their maximum ability to support sustainability throughout the state.

Multiple BCP's presented by DGS from various divisions request funding or positions for green building purposes. The request for studies done on existing buildings presents opportunities for significant energy savings in older buildings. The request for the leasing division presents opportunities to provide incentives to the commercial market to provide more sustainable building options for renters. It is not clear who, or if, there is adequate oversight over these various activities. DGS works closely with the Governor's Green Action Team (created under EO S-20-04), but the Subcommittee may wish to have staff look into reporting and other mechanisms to ensure that these resources are being utilized to provide the most "bang for the buck" to the state.

Staff notes that no funding is provided to, or requested for, the California Building Standards Commission. The Subcommittee held several BCP requests open under the Department of Housing and Community Development in relation to green building issues. Some of those items pertained to the development of building codes. The Subcommittee may wish to ask staff to work with HCD, DGS, and other appropriate parties to determine necessary funding to ensure that California's Building Code continues to be the best in the nation by incorporating cost-effective measures that enhance the building environment and provide significant savings to the builder and or tenants.

ITEMS TO BE HEARD

ITEM 8660 Public Utilities Commission

ISSUE 1: ELECTRIC GENERATION INFRASTRUCTURE AND ENERGY PROCUREMENT

The Governor's Budget is requesting \$535,000 (PURA) and 5.0 Positions to evaluate procurement of electric resources. Specifically, these positions will be used for the following duties:

- Analyze utility procurement activities, implement the current program, and evaluate initiatives in new generation technologies – 3 PY
- Facilitate coordination between the Energy Commission's (CEC) Integrated Energy Policy report and the CPUC's Long Term Procurement plan process – 1PY
- Support the implementation of the resource adequacy program – 1PY

COMMENTS

Eleven billion dollars in energy procurement activities are charged to electric ratepayers each year. In addition, the California Energy Commission's Integrated Energy Policy Report identifies a need for approximately 10,000 megawatts of new generation in the next few year. With new capacity costing approximately \$1 million per megawatt, this construction will cost about \$10 billion. The Public Utilities Commission (PUC) reviews the Long-Term Procurement Plans of the Investor Owned Utilities (IOUs). The PUC is currently in the middle of its second such review cycle. Staff has no issues with this proposal as there is a demonstrated workload increase expectation for the CPUC.

ISSUE 2: BIG BOLD ENERGY EFFICIENCY STRATEGIES IMPLEMENTATION

The Governor's Budget is requesting 5.0 positions and \$548,000 (PURA) to maximize investor-owned utility (IOU) energy efficiency savings through 2020 and beyond.

The CPUC states that this BCP will improve the Commission's ability to oversee and improve the IOU short and long term energy efficiency effort, including review and approval of the multi-billion dollar IOU energy efficiency portfolio plans, implementing a coordinated "big and bold" statewide initiatives for energy efficiency; overseeing development of a statewide IOU long term strategic energy efficiency plan; evaluating and measuring the energy savings achieved; and assessing market potential, market penetration, and technical efficiency programs.

COMMENTS

Current statute requires that utilities meet their *"unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible."* As a response to this statute, the Public Utilities Commission is launching a new aggressive approach to promote energy efficiency through "big and bold" statewide strategies for energy efficiency for the upcoming 2009-11 program cycle, and for the long-term through 2020. The PUC is aiming to create a framework for sustainable energy efficiency programs and other programs throughout the investor owned utility (IOU) service areas to reduce or avoid energy consumption, and a process for accomplishing those efforts through long-term IOU strategic planning that transcends regulatory, programmatic and jurisdictional constraints, and emphasizes a broader view of the energy efficiency landscape.

During the 2006-08 ratepayer cycle, the IOUs invested approximately \$2 billion into energy efficiency. Prior to 2006, the utilities performed the evaluation, measurement, and verification function of their energy efficiency achievements. There are over 200 program areas and over \$118 million in consultant contracts for this function.

The Legislature and the Administration have made it a policy priority to aggressively pursue energy efficiency measures statewide in order to fill future electricity generation needs and to reduce particulate and greenhouse gas emissions. This proposal will push IOUs to adopt programs that move beyond "low hanging fruit" energy efficiency solutions towards larger, long term comprehensive shifts in building design, operation, and planning. As such, staff does not have any concerns with this increase in staffing.

ISSUE 3: ELECTRIC TRANSMISSION SYSTEM PLANNING, PERMITTING, AND COST RECOVERY

The Governor's Budget is requesting 3.0 positions and \$299,000 (PURA) to meet significantly increased workload associated with the planning for, and review and disposition of, an escalating number of transmission project applications.

With the proposed funds, the PUC would:

- Develop and implement the Renewable Energy Transmission Initiative;
- Determine the economic need for an escalating number of new proposed transmission projects that are part of the investor-owned utilities' Long-Term Procurement Plans, Local Capacity Requirements, and California's Renewable 2020 Goals; and
- Perform the environmental document review and support the permitting of Certificates of Public Convenience and Necessity or Permits to Construct for critical transmission projects.

COMMENTS

The CPUC is responsible for environmental review and need assessment associated with the IOUs proposed transmission projects, as well as protecting consumers in cost recovery proceedings at the Federal Energy Regulatory Commission (FERC). Additionally, the CPUC has sponsored a proactive renewable transmission planning process that will seek to identify the next generation of renewable areas and rank them by cost-effectiveness.

Because there is a rising number of transmission projects expected for the CPUC to review, staff has does not have any concerns with this proposal.

ISSUE 4: CALIFORNIA INDEPENDENT SYSTEM OPERATOR MONITORING

The Governor's Budget is requesting \$253,000 and 2.0 positions (PURA) to monitor the California Independent System Operator (CALISO) market after the implementation of a new market design called the Market Redesign and Technology Upgrade.

COMMENTS

The CPUC has a statutory mandate to analyze market data and make appropriate recommendations about the proper functioning of newly designed competitive wholesale markets both at the CALISO and in the FERC proceedings. The implementation of MRTU will fundamentally change California's wholesale electricity market, which will directly impact ratepayers in the retail market and have ramifications for the CPUC proceedings involving resource adequacy and procurement.

Scheduled for implementation in April 2008, MRTU aligns California's electricity market with wholesale market designs throughout North America. MRTU will establish an integrated forward market with day ahead trading; a full network model that identifies bottlenecks before schedules actually run; provide for location marginal pricing, which allows least cost decisions about how to fix bottlenecks; and puts new computer systems into place.

This proposal would allow the CPUC to provide an independent review of market performance and market power problems, develop a record of structural problems and propose corrective action, as well as review rule changes including penalties and sanctions. Currently, the CPUC initiates these activities on an ad hoc basis and instead relies on the CAISO to provide oversight of its own activities. Under this BCP, the CPUC market monitoring function will be performed in a similar way as the New York Public Service Commission monitors its New York ISO.

LAO COMMENTS

The Governor's Budget proposes to eliminate the Energy Oversight Board (EOB) that had a mission of overseeing the CALISO and the FERC and allow their functions to be absorbed by the CPUC. In their analysis of the budget, the LAO has raised concern that there is not a clear plan to transfer the EOB's duties to the CPUC and the Legislature should be given assurances that the oversight functions that were previously conducted by the EOB will be continued at levels acceptable to the Legislature. Without a clear plan, it is difficult for the Legislature to make this important policy decision. At the hearing the CPUC should be prepared to respond to the LAO's concerns.

ISSUE 5: RAIL SAFETY PROGRAM

The Governor's Budget is requesting 4.0 positions and \$410,000 from the Public Transportation Account to increase accident investigation and rail inspection programs for mass transit rail systems.

COMMENTS

The Public Utilities Commission (PUC) regulates rail transit safety by enforcing both state and federal law. The PUC's Rail Transit Safety Section (RTSS) is in charge of transit rail such as the Bay Area Rapid Transit and the San Francisco Municipal Transportation Agency. Previously, the RTSS has been staffed by loaning people from the freight rail operations safety branch. Because of aging statewide rail infrastructure and recent increases in frequency of public mass transit accidents, the CPUC feels that is appropriate to use public transportation funds to increase safety oversight programs. Staff agrees with the CPUC and does not have any concerns with the proposal.

ISSUE 6: DIVISION OF RATEPAYER ADVOCATES AB 32 (NUNEZ) OVERSIGHT

The Governor's Budget is requesting 1 position and \$102,000 from the PUC ratepayer Advocate Account to allow effective, independent analysis, advocacy and review of alternative reporting and regulatory regimes, alternative market approaches, and the economic effects on markets and ratepayers to comply with *AB 32 (Núñez), the Global Warming Solutions Act of 2006*.

COMMENTS

The CPUC and the California Energy Commission (CEC) have the responsibility for advising the ARB in the formulation of the AB 32 (Núñez) scoping plan on greenhouse gas reductions strategies for the electricity sector. In a formal proceeding, the CPUC and CEC adopted recommendations that a cap and trade system should be pursued as the preferred method of reducing GHG emissions in the electricity sector. Because this recommendation and any other new policies that are adopted through the scoping plan process will have potential high costs to the rate payer and will have drastic effects on the electricity sector in general, the DRA is proposing to increase its staff to provide higher levels of review, participation and advocacy in the process.

Because of the magnitude of potential changes to the electricity market the AB 32 (Núñez) may have, staff feels that this proposal is appropriate and needed to protect the interests of the ratepayer and thus has no concerns with the proposal.

ISSUE 7: DIVISION OF RATEPAYER ADVOCATES: INFRASTRUCTURE PLANNING

The Governor's Budget is requesting 2 positions and \$210,000 from the PUCs Ratepayer Advocate Account to process significant increase in utility transmission projects needing state certification. Between now and the end of 2008, the CPUC anticipates 19 applications from major transmission projects totaling over \$4 billion in new infrastructure investment. This proposal would provide the DRA more staff to complete their mission with regards to this increased workload.

COMMENTS

The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission (PUC). DRA is charged with advocating on behalf of the customers of regulated utilities to ensure the lowest possible utility rates, consumer protection, service quality, as well as safety and reliability.

Due to a recent interest in renewable energy, and the need to construct renewable energy facilities, the PUC anticipates receiving about 19 applications for major transmission projects totaling \$4 billion during 2008-09. Over the last decade, the PUC received one application annually. DRA's role is to independently evaluate the economic and reliability need for transmission projects from the perspective of the consumers who will pay for the projects while also looking at broader energy policy goals and resource planning priorities for the investor-owned utilities.

Because of the increased workload and the need to insure ratepayer advocacy in new transmission projects, staff has no concerns with this proposal.

ISSUE 8: DIVISION OF RATEPAYER ADVOCATES: WATER AUDITS

The Governor's Budget proposes \$300,000 from the Public Utilities Commission Ratepayer Advocate Account and three positions to perform audits of water company financial records in conjunction with general rate cases and other proceedings initiated either by the PUC or the utilities.

COMMENTS

The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission. DRA is charged with advocating on behalf of the customers of regulated utilities to ensure the lowest possible utility rates, consumer protection, service quality, and safety and reliability. Unique to DRA is participation in all PUC proceedings where DRA represents consumer interests. DRA works on energy matters (electric and gas), water rates and services, and telecommunications.

DRA is mandated by the PUC to audit all Class A water utilities every three years. These are water utilities with over 10,000 customers, and there are nine such utilities in the state. As part of the audit, DRA is supposed to conduct a comprehensive analysis of rates charged by the utilities in each of their 64 districts. It takes one staff member 6-8 months to conduct a single audit.

Because of the increased workload in audits of Class A water companies and the need to insure ratepayer advocacy current water proceedings, staff has no concerns with this proposal.

ISSUE 9: DRA: WATER CONSERVATION RATE DESIGN

The Governor's Budget proposes \$102,000 from the Public Utilities Commission Ratepayer Advocate Account and one position to perform the design of water conservation rate structures and to evaluate non-price related conservation programs that are consistent with PUC guidelines and the California Urban Conservation Council's best management practices.

COMMENTS

The Division of Ratepayer Advocates (DRA) is an independent entity within the California Public Utilities Commission (PUC). One of the tasks DRA is charged with is reviewing the rate design structure of water utilities. Water utilities file a general rate case every three years, as required by the PUC.

Rate design analysis is based on consumption. The state is currently considering a shift to conservation rate design, which would include increasing block rates to provide the price signal to customers to encourage conservation. This new rate case schedule will consolidate the cost of capital for some utilities and change the data that accompanies applications. These new applications will require additional staff resources for review.

Because of the increased workload in audits of Class A water companies and the need to insure ratepayer advocacy current water proceedings, staff has no concerns with this proposal.

ISSUE 10: ESTABLISHMENT OF A PROJECT MANAGEMENT OFFICE

The Governor's Budget proposes \$199,000 from various special funds and 2 positions to establish a Project Management Office in the Information Services Branch.

COMMENTS

The Public Utilities Commission (PUC) Information Services Branch (ISB) has 11 different divisions. The ISB has not developed standards, processes, methods, tools, templates, and documentation for the implementation of Information Technology projects. Thus IT projects are accomplished, but not using standardized methods. There is no central point to manage and approve the collection of projects and no single source for information on project activity across the IT enterprise.

This proposal is the result of an assessment conducted by an independent IT consultant on how the CPUC could improve its IT infrastructure. Staff feels that it is reasonable to approve these positions, at least on a temporary basis, to give some continuity and follow through to current the process the CPUC uses to complete IT projects.

ISSUE 11: CENTRALIZED FINE RESTITUTION COLLECTIONS

The Governor's Budget proposes \$236,000 in various special funds to consolidate the fine and restitution collection efforts as recommended by the State Controller's Office audit report.

COMMENTS

The California Public Utilities Commission (PUC) is responsible for regulating privately owned telecommunications, electric, natural gas, water, railroad, and passenger transportation companies. The PUC reviews and investigates complaints and allegations of wrongdoing to ensure companies are operating in the public interest.

When warranted, the PUC will levy fines and restitution against regulated companies if investigative efforts determine the companies failed to comply with laws or engaged in inappropriate practices. Fines levied by the PUC are transferred to the General Fund upon collection. Staff has no issues with the proposal as it would increase the CPUC's activities to pursue collections of fines and restitutions that could have a potential General Fund benefit.

ISSUE 12: SECURITY GUARDS

The Governor's Budget is requesting 13.0 Security Guard positions at a savings of \$82,000 in various special funds to provide security for the San Francisco headquarters building. The permanent positions will eliminate the need to use contracted security services.

COMMENTS

The Public Utilities Commission (PUC) is the sole occupant of its building in San Francisco. As the sole occupant, the PUC assumed responsibility and liability for the security of its staff and visitors who attend meetings, hearings, and workshops. Currently, the California Highway Patrol has a master service agreement with a private security company to provide security services at the PUC building. The contract is scheduled to terminate on June 30, 2010, but the PUC has the right to cancel the contract at any time during the term by way of a thirty-day notice to terminate.

The CPUC cites that there are benefits in having stable, long term employees for security guards because of familiarity with facilities, employees, and potential dangers. While the CPUC has been able to achieve this through contracted staff, recent changes in contracts and company ownership have caused staffing continuity concerns. This proposal would allow the CPUC to bring current contracted staff on as state personnel at levels that will not require overtime and will ultimately generate a savings over what is currently expended on contracts.

ISSUE 13: OFFICE EXPANSION PROJECT

The Governor's Budget proposes \$1,889,000 from various special funds to expand the San Francisco, Los Angeles, and Sacramento Offices.

Specifically, this augmentation will provide the following:

- **San Francisco:** Establish a new satellite office for 125-150 employees in close proximity to headquarters.
- **Los Angeles:** New office space will be leased to accommodate 100 employees from the Rail Safety and Consumer Affairs Branch to serve Southern California constituents.
- **Sacramento:** New office space to accommodate the new Universal Lifeline Telephone Service (ULTS) Eligibility Appeals Section of 31 employees.

COMMENTS

Over the years, staff has increased in size due to new legislation and program mandates. Additionally, DGS has informed the CPUC that new workstations approved in last year's budget have made the current floor space for the CPUC insufficient to accommodate existing and new staff while adhering to fire martial codes and Americans with Disabilities Act requirements.

Staff cites a general concern that a high concentration of the office space that the CPUC is requesting in this BCP is in the high rent San Francisco Office. At the hearing, the CPUC should be prepared to explain to the Subcommittee why investments in new office space need to be committed to San Francisco rather than in lower rent markets like Sacramento.

ISSUE 14: UNIVERSAL LIFELINE REAPPROPRIATION

On September 30, 2006, SB 909 (BOWEN) set aside up to \$2 million in 2006 for discounting network installation costs to increase the capacity of community based organizations (CBO) that serve their local communities through providing access to broadband technologies.

Representatives from CBOs contend that due to the unintentional restrictiveness of statute, and that PUC did not begin implementation until January 2006, the intended users have not been able to sufficiently utilize the funds. These funds are set to expire on June 30, 2008.

It has been requested of staff by representatives from CBOs that the legislature approve the following reappropriation of these funds to allow for the fulfillment of their original purpose.

8660-491 Reappropriation, Public Utilities Commission. FO the Combined balances of the appropriation provided for in the following citations, \$2,000,000 is reappropriated for the purposes provided for in Chapter 531 of statutes of 2003 and is available for encumbrance or expenditure until June 30, 2010:

- (1) Item 8660-001-0493, Budget Act of 2003 (Ch. 157, Stats. 2003)*
- (2) Item 8660-001-0493, Budget Act of 2004 (Ch. 208, Stats. 2004)*