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CONSENT ITEMS

ITEM 0845  DEPARTMENT OF INSURANCE

ISSUE 1: CONSENT - IMPLEMENTATION OF AB 1183

The CDI is requesting three two-year limited term positions and an increase of $33,000 (Insurance Fund) in expenditure authority for the Investigation Division to eliminate the backlog of agent and insurance company law violations against consumers of automobile insurance. This is in accordance with the provisions of AB 1183 (Vargas), Chapter 717 Statutes of 2005 that mandated the department.

ISSUE 2: CONSENT – RE-APPROPRIATION OF LOCAL ASSISTANCE SPENDING AUTHORITY FOR DISABILITY AND HEALTH CARE

The CDI is requesting re-appropriation of funds in the amount of $1.1 million (Insurance Fund) in Local Assistance from fiscal year 2004-05. These funds are distributed in the form of grants to participating District Attorneys for investigation and prosecution of fraudulent health insurance claims. Funding for these grants is provided by an assessment of ten cents assessed to each disability insurance policy for a group or individual.

ISSUE 3: CONSENT - WORKERS COMPENSATION RESEARCH FUNDING

The CDI is requesting a one-time $1 million (Insurance Fund) spending authority increase to fund a research study that focuses on measuring the extent of workers' compensation insurance fraud and identifying the emerging fraud trends. In their report in 2004, the Bureau of State Audits found that the Department had deficiencies in workers' compensation research and thus were not able to meet its advisory and reporting responsibilities.
ISSUE 4: CONSENT – OFFICE OF ADMINISTRATIVE HEARINGS

The CDI is requesting an augmentation of $837,728 (Insurance Fund) for their legal branch to address increased costs associated with an increased number of administrative hearings conducted by the Office of Administrative Hearings (OAH) Administrative Law Judges (ALJ) on behalf of the CDI's office of Administrative Hearings. The Department reports that since 2003-04, CDI has seen a 63 percent increase in the amount billed by the OAH for conducting hearings.

ITEM 2150  DEPARTMENT OF FINANCIAL INSTITUTIONS

ISSUE 1: CONSENT - BANK SECRECY ACT/ANTI MONEY LAUNDERING ACT

The DFI is proposing a staff increase of two Senior Financial Institution Examiners and two Financial Institution Examiners (3.8 pys) at a cost of $416,000 in the first year and $408,000 in ongoing years. The additional staff will be needed to meet the anticipated increase in hours for the examination and enforcement of the Bank Secrecy Act, Anti Money Laundering Control Act, Suspicious Activities Reporting, and USA Patriot Act at all licensees.
ITEMS TO BE HEARD

ITEM 0520  BUSINESS TRANSPORTATION AND HOUSING AGENCY

The mission of the Secretary for Business, Transportation and Housing (BTH) is to oversee and coordinate the activities of fourteen departments, offices and various economic development programs, which comprise the BTH Agency, with responsibility for maintaining the strength of California's infrastructure and the efficiencies of its financial markets. The Office of Military and Aerospace Support, the California Film Commission, the California Infrastructure and Economic Development Bank, and the California Tourism Commission are part of the Office of the Secretary.

ISSUE 1: CALIFORNIA SMALL BUSINESS LOAN GUARANTEE PROGRAM

The Governor's budget is proposing to repay a $10.7 million loan (plus interest owed) made to the General Fund from the Small Business Loan Guarantee Fund (SBLGF). In the 2002-03 fiscal year, $10.7 million was loaned from the SBLGF to the General Fund to help with the State's budget deficit. Though no repayment date was specified when this action was taken, repayment was to include interest earned at the pooled money investment account interest rate. The BTH agency cites that this loan repayment will allow the Small Business Loan Guarantee Program to increase its volume of loan guarantees by 270 loans.

BACKGROUND

The Small Business Loan Guarantee program (SBLG) provides guarantees for loans issued to small businesses by private financial institutions that would otherwise not approve a term loan or line of credit. The loan guarantee serves as an incentive for financial institutions to issue these loans to eligible small businesses, where the guarantee covers a percentage of the loan balance and interest on defaults.

The SBLG program is operated through the State's 11 regional Financial Development Corporations (FDC). Along with providing loan guarantees, FDC's offer other services such as financial counseling and planning to small businesses.

COMMENTS

Concerns have been raised in the past by both the LAO and subcommittee members regarding costs associated with the program when compared to overall benefits provided to the state. Subsequently, in subcommittee hearings, the BTH agency has given their commitment that measures would be taken to increase loan guarantee volume and address high per-loan costs of the program. The Office of the Secretary should be prepared to update the subcommittee on their ability to address legislative concerns with the program.
ISSUE 2: TOURISM AUGMENTATION

The Governor's budget proposes to augment the Division of Tourism's budget by $2.7 million to bring total annual state funding for the program to $10 million. The travel industry has maintained its commitment to fund 60 percent of the Commission, bringing their contribution to $15 million thus total funding for the program to $25 million.

BACKGROUND

The California Tourism Marketing Act (Chapter 871, Statutes of 1995 [SB 256, Johnston]) establishes the framework for the Tourism Commission which provides domestic and international marketing of California as a tourism destination. The act creates a public-private funding model in which the state provides General Fund spending and the tourism industry provides funding through a voluntary assessment. The law established minimum annual funding targets of $7.3 million from the state and $25 million from the industry (a funding ratio of 23 percent to 77 percent).

Due to budget constraints, the state did not make any contributions to the program in 2003-04 or 2004-05. During which times, the industry continued to provide roughly $7 million in contributions. In the 2005-06 Budget Act, the state augmented funding for the program by $7.3 million in General Fund while industry assessments provided an additional $11 million in funding.

COMMENTS

LAO Recommendations. The LAO has recommended that the Legislature reject the proposal due to the state’s overall budget condition and the commission’s inability to raise the minimum annual funding of $25 million from industry as originally envisioned by the legislation.

The LAO also recommends the adoption of budget bill language making the state’s existing contribution contingent on industry making its targeted contributions.
ISSUE 3: CALIFORNIA FILM COMMISSION AUGMENTATION

The Business Transportation and Housing Agency requests an on-going General Fund increase of $80,000 for the California Film Commission (CFC). This additional funding will be used to cover maintenance costs associated with their on-line film permitting system.

BACKGROUND

In the 2004-05 budget, $600,000 General Fund was provided to develop, implement and operate a new online film permitting system that replaced a manual, paper based process. At the time of this proposal, the department expected that the ongoing maintenance costs in this proposal would be absorbable by the Agency. However, because of unexpected obligations related to the closure of the Technology Trade and Commerce Agency, the Agency is unable to further absorb these costs. Additionally, the commission notes that because they have been redirecting funds to cover these costs, they have not been able to perform outreach activities such as location show participation, handouts, and ad placements, because this funding deficiency.

LAO Comments. In the Analysis of the 2004-05 Budget Bill the Legislative Analyst recommended that the Commission use existing statutory authority (Government Code Section 14998.8) to charge fees for its film permitting activities to offset the cost to the General Fund. The Administration opposed new fees, and film permits are currently issued without charge.

COMMENTS

In the Governor's budget there are various deserving programs that are not being funded or are receiving partial funding. Considering this and the ongoing fiscal deficit, the Commission should be prepared to testify at the hearing on their ability to continue to absorb these costs and what activities will be affected if this proposal is not approved.

ISSUE 4: CALIFORNIA FILM COMMISSION – IMPLEMENTATION OF 1437

The BTH agency is requesting an annual appropriation of $10,000 (Special Fund) in accordance with Assembly Bill 1437 (Strickland), Chapter 168, Statutes of 2005 which authorizes the CFC to establish the Film Promotion and Marketing Fund (FPMF). AB 1437 and the establishment of the FPMF will allow the CFC to generate revenue from the sale of services such as location library documents, photocopying, and other film related informational documents in addition to moneys from any and all public or private sources that support the purposes of the legislation.
ISSUE 5: CHROME PLATING PROGRAM – AB 721 (NUNEZ)

The Business Transportation and Housing Agency is requesting $528,000 (Special Funds) for implementation costs for the Chrome Plating Loan Guarantee program established by Assembly Bill 721 (Nunez).

BACKGROUND

Approved by the legislature in 2005, AB 721 (Nunez) requires that the BTH Agency, in collaboration with other state entities, establish a loan guarantee program for chrome plating facilities. Through contracts with the state's 11 financial development corporations, this program will provide loan guarantee to chrome plating facilities to mitigate the potentially harmful effects that these facilities can have on the environment.

Staff understands that there are technical statutory changes that need to be made in order to implement the bill. According to the department and the author of the bill, there are no objections to these changes.
ITEM 0845  DEPARTMENT OF INSURANCE

The Department of Insurance regulates the largest insurance market in the United States with over $115 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and is a major contributor in combating insurance fraud.

ISSUE 1: THE PATIENT AND PROVIDER PROTECTION ACT IMPLEMENTATION

The California Department of Insurance (CDI) is requesting authority for 10.0 positions and $1.2 million to implement the provisions of Chapter 723, SB 367 (Speier). This bill requires CDI to investigate complaints from healthcare providers regarding health insurance disputes and prosecute unfair claims practices found during this process. The intent of this legislation was to improve the protections for health care consumers by giving health care providers the same rights to file complaints against CDI regulated insures as the have with insures managed by the Department of Managed Health Care.

COMMENTS

LAO comments. The LAO has raised concerns that size of this proposal may be too large considering that this is the first year of implementation and it is uncertain that the volume of complaints will meet the department's expectations. The LAO compared this program to that operated by the DMHC which regulates health organizations that serve more than four times as many Californians as those regulated by CDI. The DMHC's comparable provider complaint unit employs eight staff members. The LAO expects that the CDI would receive significantly less complaints than DMHC on an ongoing basis, although it may experience relatively more workload in the short term to deal with any built up backlog of complaints. Based on their review, the LAO believes CDI can meet its new responsibilities under Chapters 441 and 723 with five new positions (four insurance compliance officers and one staff counsel). This recommendation would reduce CDI's request by $410,000. (The CDI has commented that it if the subcommittee was to take the LAO's recommendation, it would be preferable to have flexibility to hire compliance officers rather than staff counsel to make better use of limited resources).

In order to provide the Legislature and the Administration with a better ideal of workload demands as this program ramps up, the LAO has additionally recommended that the CDI provide annual reports on workload levels of the unit for three years.
ITEM 2120  DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

The Department of Alcoholic Beverage Control is vested with the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution and sale of alcoholic beverages in the State of California. The Department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well being of the people of California.

ISSUE 1: PAID OVERTIME AUGMENTATION

The Department of Alcoholic Beverage Control (ABC) is requesting to augment the Department's paid-overtime budget by $1.75 million (Alcoholic Beverage Control Fund). The department has commented that this augmentation will replace "comp-time-off" pay and also provide for future increases in enforcement and licensing.

BACKGROUND

ABC operates multiple levels of enforcement activities of business and persons engaging in the distribution or sale of alcoholic beverages. These activities can include performing compliance visits to ABC licensed premises, complaint investigation, and minor decoy operations. In an effort to efficiently distribute workload of the various enforcement activities, the department divides enforcement workload among three different classifications of employee:

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In their Budget Change Proposal, the Department cites that the nature of their positions and periodic spikes in workload result in enforcement employees working numerous hours outside of the normal workday. In these cases the Department has historically compensated employees with comp-time-off (CTO) rather than overtime pay because of limited overtime pay budgets. The Department has commented that this practice has resulted in an over accumulation of CTO obligations in the ABC budget and a difficulty in management to personnel who increasingly use comp-time.

In 2001-02, ABC began offering licensing and enforcement personnel the option to receive cash payment for overtime hours worked rather than time off. The use of paid overtime in the past four years has reduced the annual CTO balances to an average of 17,000 hours annually (less than 75 hours per employee). To date, the cash payment option has been funded from Federal grants. For instance, in 2005-06 ABC will receive about $500,000 in grants to support about 12,000 hours of paid overtime. The ABC estimates that about one-quarter of its overtime workload is for special events, and the remaining amount is for routine duties.
LAO COMMENTS

Increased need for enforcement. In the revised fund condition provided by the ABC, it is assumed that the department will see an increase in the amount of liquor licenses being renewed annually by 1000 -1100 and new priority license applications increase by approximately 200 each year. Accordingly, an increase in licenses granted by ABC should correlate into an increased need for enforcement. In their proposal, the Department expresses that the proposed increase in overtime pay will allow them to shift away from providing comp-time-off and allow them to provide increased enforcement by increasing overtime hours and not providing more enforcement positions. For the hearing, the ABC should be prepared to comment on their current enforcement efforts, including their enforcement staff per license ration and their workload expectations for the next three years.

The LAO Recommendation. The LAO has raised concerns that the proposed funding for paid overtime hours far exceeds ABC’s average overtime hours. The requested funding level would increase the department’s overtime hours by more than 35 percent. The department, however, provided no workload analysis to justify any expansion of its current overtime hours. Instead, the requested number of hours was determined based on an assumption of how many overtime hours officers would be willing to work each month. In addition, the department’s proposal fails to account for the continued availability of grant funds and the preference of some employees for CTO rather than paid overtime. Finally, the department provided no rationale as to why the current approach to meeting its overtime needs is ineffective. Accordingly, the LAO recommends that the Legislature reject ABC’s request for $1.7 million in overtime funding. The proposal would allow the department to drive up personnel costs without any evidence that additional overtime hours are needed to meet workload demands.
ISSUE 2: GRANT ASSISTANCE PROGRAM

The Department is proposing to increase local assistance funding from $1.5 million to $3 million (Alcohol Beverage Control Fund) for the Alcoholic Beverage Control's Grant Assistance Program (GAP) and increase support funding by $248,000 (Alcohol Beverage Control Fund). This augmentation will increase grants funded from 20 – 40 per year and will fund three new and increase the ABC's support appropriation by $248,000 to fund three additional Investigator II positions to supervise and consult with the new local law enforcement entities that receive the grants.

BACKGROUND

The Department's Grant Assistance Program works with and provides grants to local law enforcement agencies to develop comprehensive approaches to eliminating crime and public nuisance problems associated with alcoholic beverage outlets. Currently, the department allocates $1.5 million annually to GAP local assistance grants from the Alcohol Beverage Control fund and dedicates nine positions; two for statewide management and seven for regional administration – to administer the grants. Under their proposal, the department would augment local assistance grant funds from $1.5 million to $3 million and increase both the number of investigators and their workload ratio from three grants per investigator to four per investigator.

ISSUE 3: OFFICE SPACE COSTS

The Department is proposing that their support budget be augmented by $234,000 (Alcohol Beverage Control Fund) for increased office space. This proposal would provide funding for fund increased cost of living increased in existing negotiated leases; renegotiating expiring leases at current market rates; and increased space needs.

COMMENTS

Generally, departments are able to absorb minor office renovation costs and rent increases (rent costs beyond the baseline augmentation built into the budget), without needing additional budget authority. The Department had budgetary savings of over $2.0 million in both 2003-04 and 2004-05. ABC suggests savings in 2005-06 may be $150,000 to $672,000, depending on whether a software purchase occurs this year or next.
ITEM 2150  DEPARTMENT OF FINANCIAL INSTITUTIONS

The mission of the California Department of Financial Institutions is to promote the integrity and stability of California’s financial services system through the regulation and supervision of financial institutions that are either required to be licensed by the state or that choose a state license.

ISSUE 1: SPECIAL LICENSE OPERATING EXPENSES AND EQUIPMENT

The Department of Financial Institutions (DFI) is requesting an augmentation of $192,000 (Financial Institutions Fund) for Operating Expenses and Equipment (OE&E) within their Special License Program. This program examines financial institutions that sell payment instruments (money orders), traveler’s checks, and transfer money internationally.

COMMENTS

The Department indicates that in 2002-03, $192,000 was shifted from Special Licenses (Program 20) OE&E to personnel services for unfunded wage and salary costs. DFI expected to be able to reduce Personnel Services costs and shift these funds back to Program 20 OE&E however, the savings were not ultimately realized because of increased workload demands. In order to fund these deficiencies, DFI subsequently, submitted a Section 26 letter to transfer funding to the Industrial Banks Program (Program 80) to Program 20 OE&E. The DFI has indicated that it plans on submitting a Section 26 letter in 2005-06 to split a transfer to Special Services OE&E of $192,000 between their Program 10 (Banking) and Program 80.

The Department has indicated that Program 80 did not experience any adverse effects from the previous transfer and it likewise felt that the projected transfer in the current year could be absorbed as well. For the budget year, DFI has commented that it is concerned that increased workload will make budget year Section 26 transfers more difficult and may have adverse effects on their programs.
ITEM 8690  SEISMIC SAFETY COMMISSION

The Seismic Safety Commission's goal is to improve earthquake preparedness and safety in California. The 17-member body performs policy studies, reviews programs, investigates earthquake occurrences, and conducts hearing on earthquake safety. The commission also advises the Legislature and the Governor on issues related to earthquake safety.

The Governor's Budget proposes total expenditures of $1.1 million (primarily from fees paid by property insurers) and 6.8 personnel-years of staff for the commission in 2006-07. Funding declines slightly (by $63,000) and staffing remains the same compared with the current year.

ISSUE 1: CONTINUATION OF FEE SUPPORT

The 2003-04 Budget shifted the commission's support from the General Fund to a fee assessed on property insurers and deposited in the Seismic Safety Account of the Insurance Fund. The fee sunsets on June 30, 2007—at the conclusion of the budget year.

The commission has sought legislation to extend the fee. Specifically, the Legislature passed AB 1374 (Liu) last year to extend the fee sunset to June 2013. However, the Governor vetoed the bill citing a finding of the California Performance Review that the commission's functions might be duplicative of those of certain other state agencies. The veto message indicated that extending the fee would be premature until the administration completed a further review of the state's seismic safety programs. The Governor's Budget does not include any proposal to extend the fee or to reorganize seismic safety functions.

The commission points out that postponing a decision on extending the fee until next year would put the commission in the position of having to cease operations by the end of 2006 in order to meet state personnel requirements and because it could not sign a new lease without an assurance of future funding.

COMMENTS

Staff understands that the commission and the administration are currently engaged in discussions regarding the commission's role and financing and that they expect to have an agreed proposal soon.

The commission and the Department of Finance should report to the subcommittee on their progress and how soon they anticipate having a proposal.
ITEM 8855 BUREAU OF STATE AUDITS

The Bureau of State Audits functions under the California State Auditor to promote the efficient and effective management of public funds and programs by providing independent, objective, accurate, and timely evaluations of state and local governmental activities to citizens and government. The State Auditor conducts financial and performance audits as directed by statute, and other government audits requested by the Joint Legislative Audit Committee. The State Auditor also administers the "California Whistleblower Protection Act," and may investigate alleged violations of state or federal law or regulation by state agencies or employees. Specifically, the State Auditor reports annually on California's general purpose financial statements and fulfills the audit requirements of the federal Single Audit Act of 1984. Because of its $60 billion budget the State would be the seventh or eighth largest economy in the world if it were a nation. As a result, California's statewide single audit is the largest governmental audit in the United States. Additionally, the State Auditor performs dozens of other audits mandated by various statutes and conducts audits requested by the Legislature. Legislative requests are first approved by the Joint Legislative Audit Committee (JLAC) and then prioritized based on the availability of funds. Although formally a part of the Executive Branch of state government, the bureau is an independent entity that is not subject to the budget or personnel control of the administration.

The 2006-07 Budget includes $13 million (General Fund) for the support of the bureau—a decrease of $200,000 compared with the current year. Staffing shown in the budget remains flat at 139.5 personnel-years (PYs).

ISSUE 1: AUGMENTATION REQUEST

The bureau is requesting a General Fund augmentation of $1.2 million for 2006-07. This augmentation, together with $1.7 million from a carryover balance in the State Audit Fund (the continuously appropriated fund into which the bureau's appropriations are transferred) will provide for total spending of $16.1 million. (The total also includes a shift from the current year to the budget year of $200,000 appropriated by AB 1629, (Frommer) Statutes of 2004 related to an audit of Medi-Cal nursing home financing). The carryover funds reflect the bureau's estimate that it will spend only $12.2 million in the current year.

Current-year savings of about $1 million primarily reflect savings from vacancies. The bureau now estimates that its staffing will be no more than 118 PYs in the current year—a reduction of at least 21.5 PYs from the estimate in the Governor's Budget. The vacancies reflect difficulty that the bureau is having in hiring and retaining qualified auditors. The additional funding proposed for 2006-07 would be used for the following purposes:
• Contracting out a substantial portion of the annual federal compliance audit ($2.5 million). Contracting-out would continue for two additional years as the bureau rebuilds and augments its own staff.

• Shifting salary ranges up by about 10 percent and adding some new upper classifications.

• Increased funding for contract expert assistance ($547,000).

A portion of the increased costs will be offset by a reduction of 6 PYs in staffing from the 139.5 PYs shown in the budget. However, the actual number of PYs will increase from around 118 in the current year to about 134 in 2006-07.

Goals of the Request. The additional funding has two primary goals. First, to retain, rebuild and strengthen the bureau's staff. Secondly, to provide sufficient resources to carry out JLAC-approved audits in addition to statutory audit requirements.

COMMENTS

The Budget Committee has received a letter supporting this request from Assemblymember Parra, the Chair of JLAC, and Senator Poochigian (the committee's Vice-Chair).
ITEM 8910 OFFICE OF ADMINISTRATIVE LAW

The Office of Administrative Law (OAL) is responsible for reviewing administrative regulations proposed by over 200 state regulatory agencies for compliance with the Administrative Procedure Act, for transmitting these regulations to the Secretary of State, and for publishing regulations in the California Code of Regulations. The Office also makes determinations as to whether a state agency rule meets the statutory definition of a "regulation" which must be adopted pursuant to the requirements of the Administrative Procedure Act. The Office oversees the publication and distribution, in print and on the Internet, of the California Code of Regulations and the California Regulatory Notice Register.

The Governor's Budget for 2006-07 proposes $2.7 million ($2.4 million General Fund) and 20.9 personnel-years of staff for the office, essentially the same as the estimates for the current year.

ISSUE 1: OVERSIGHT: ASSESSMENT AND MITIGATION OF ECONOMIC IMPACTS IN THE REGULATORY PROCESS

The Administrative Procedure Act requires that state agencies, in considering and adopting regulations, must identify whether the regulations have a significant, statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states, and to seek ways to minimize any such burden.

The office should report to the subcommittee regarding how it ensures that the economic impacts, especially impacts on small businesses, are appropriately considered by state agencies in the regulatory process. Does OAL track which agencies have ongoing challenges in meeting this requirement? Does OAL include these requirements in its training program and does OAL attempt to assess cumulative impact of regulations on businesses?
ITEM 9625 INTEREST PAYMENTS TO THE FEDERAL GOVERNMENT

Under federal law, the state must pay interest to the federal government on federal funds held by the state in advance of their expenditure. The federal assistance programs affected are those programs that have $212 million or more in federal fund expenditures. For the majority of these programs, state agencies request federal funds in advance of the warrant (i.e., check) issuance. State agencies use this funding technique because the State Constitution requires that the funds be deposited before the warrants are issued. Interest payments to the federal government are due no later than March 31 each year. The March 31, 2006 payment will be for the interest liability incurred during the state's 2004-05 fiscal year.

The Governor's Budget includes $24 million from the General Fund and $700,000 from the State Highway Account in the State Transportation Fund to make estimated interest payments in 2006-07.

ISSUE 1: CURRENT-YEAR SAVINGS

On February 9th, the Department of Finance notified the Legislature of revised interest costs for 2005-06. This amount is $2.2 million less than the $15.5 million included in the Governor's Budget. The department indicates that it intends to recognize this savings in the May Revision.

COMMENTS

The subcommittee may wish to recognize this savings now.

The Department of Finance should report to the subcommittee regarding the likelihood of any change in the estimate of interest payments for 2006-07.