

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

Assemblymember Juan Arambula, Chair

TUESDAY, MARCH 27, 2007
STATE CAPITOL, ROOM 447
1:30 PM

CONSENT CALENDAR

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0650	Office of Planning and Research	2
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CONSENT

ITEM 0650 OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, legislative analysis, and acts as a liaison with local government. OPR oversees programs for small business advocacy, environmental justice, military affairs, eminent domain, and preservation of Indian sacred sites. In addition, the Office has responsibilities pertaining to state planning, the California Environmental Quality Act, joint land use planning with the military, permit assistance and environmental and federal project review procedures. The California Service Corps is charged with administering the federal AmeriCorps and Citizen Corps programs, coordinating volunteer activity related to disaster response, and increasing the number of Californians volunteering in the state.

The Governor's proposed budget includes \$52.2 million for OPR, an increase of about \$1.4 million from the current year. The increase funded primarily from increased reimbursements.

ITEM 0950 STATE TREASURER

The State Treasurer, a constitutionally established office, provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

The Governor's proposed budget includes \$24.4 million for the State Treasurer. In addition, the Governor's proposed budget funds the following that are associated with the State Treasurer:

- ◆ 0856 California Debt and Investment Advisory Commission
- ◆ 0959 California Debt Limit Allocation Committee
- ◆ 0965 California Industrial Development Financing Advisory Commission
- ◆ 0968 California Tax Credit Allocation Committee
- ◆ 0971 California Industrial Development Financing Advisory Commission
- ◆ 0977 California Health Facilities Financing Authority
- ◆ 0985 California School Finance Authority

ITEMS TO BE HEARD

ITEM 0840 STATE CONTROLLER

The State Controller is the Chief Financial Officer of the state, elected by the people. The Controller's primary objectives are to:

- ◆ Provide sound fiscal control over both receipts and disbursements of public funds.
- ◆ Report periodically on the financial operations and condition of both state and local governments.
- ◆ Ensure money due to the state is collected through fair, equitable, and effective tax administration.
- ◆ Provide fiscal guidance to local government.
- ◆ Administer the Unclaimed Property and Property Tax Postponement Programs.
- ◆ Develop and establish policy for a significant number of boards and commissions, including all major tax boards.

ISSUE 1: BUDGET FOR THE STATE CONTROLLER

The Governor's proposed budget includes \$172 million (\$103 million General Fund) for the State Controller, an increase of about \$9.5 million (\$1.8 million General Fund) from revised current year funding.

The most significant proposal for the Controller's budget is \$38 million (\$20 million General Fund) for the 21st Century Project. The 21st Century Project is the state's new human resource management system. The budget proposal fund the "Realization Phase" and begin the "Final Preparation Phase." The "Final Preparation Phase" will put in order the activities required to begin the Rollout and "Stabilization Phase," which will begin in the budget year.

COMMENTS

The State Controller expects to attend the hearing and be available to discuss the proposed budget for his office.

ITEM 0890 SECRETARY OF STATE

The Secretary of State, a constitutionally established office, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The Office is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and perfecting security agreements. In addition, the Office is responsible for the appointment of notaries public, enforcement of notary laws, and preservation of documents and records having historical significance. All documents filed are a matter of public record and of historical importance. They are available through prescribed procedures for public review and to certify authenticity.

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

ISSUE 1: BUDGET FOR THE SECRETARY OF STATE

The Governor's proposed budget includes \$92.6 million (\$32.2 million General Fund) for the Secretary of State, a decrease of about \$7.8 million (\$900,000 General Fund) from revised current year funding.

The most significant proposals for the Secretary of State's budget are \$10.5 million (federal funds) for the continued implementation of the federal Help America Vote Act (HAVA) and \$299,000 to expand the Safe At Home Program to include victims of sexual assault.

COMMENTS

The Secretary of State expects to attend the hearing and be available to discuss the proposed budget for her office.

The next item on the agenda specifically relates to HAVA, where detailed discussion on that issue should take place.

Given the addition of the February 2008 Presidential Primary, the Secretary of State and the Department of Finance should indicate whether they anticipate changes to the Secretary of State's proposed budget for state operations in the May Revision.

ISSUE 2: HELP AMERICA VOTE ACT (HAVA)

The HAVA was passed by Congress and signed into law by the President in 2002 in response to the election troubles in 2000.

The Secretary of State is responsible for administering California's compliance with HAVA.

The Legislative Analyst provides an excellent discussion of the implementation of HAVA in the *Analysis of the 2007-08 Budget Bill*. This write up can be found at [http://www.lao.ca.gov/analysis_2007/general_govt/gen_08_0890_anl07.aspx#Secretary%20of%20State%20\(0890\)](http://www.lao.ca.gov/analysis_2007/general_govt/gen_08_0890_anl07.aspx#Secretary%20of%20State%20(0890))

The Secretary of State's office should provide an update of HAVA activities at this hearing.

COMMENTS

The Secretary of State's office should provide an overview of the HAVA Votecal project, which is the mandated replacement of the existing Calvoter database. The Subcommittee should consider adopting budget bill language requiring regular status reports of the project.

In addition, the Secretary of State's office should provide information on the following HAVA issues:

- ◆ The LAO recommends a reduction of \$308,000 in administrative expenses. What is the Secretary of State's office response to this recommendation?
- ◆ The LAO recommends the Secretary of State's office provide an update on the \$760,000 for source code review. How will the Secretary of State's office undertake the source code review and when will the funds be spent?
- ◆ How does the addition of the February 2008 Presidential Primary affect HAVA? Will there be additional costs for voter education programs? Does the estimated completion date for assistance for individuals with disabilities program contracts need to be moved up from June to February? And will the estimated costs for the interim solution increase?
- ◆ Does the Governor's proposed budget reflect the new Secretary of State's funding priorities? Specifically, the budget eliminates the \$65,000 per election that was previously budgeted for Election Day poll monitoring and eliminates parallel monitoring (\$315,000 per election). In addition, the Secretary of State recently recommended red Team testing of all voting systems without specifying

a funding source. Red Team testing consists of allowing a team to try to hack voting system to identify vulnerabilities. Does this item need to be budgeted?

ITEM 8860 DEPARTMENT OF FINANCE

By statute, the Director of Finance serves as the Governor's chief fiscal policy advisor with emphasis on the financial integrity of the state and maintenance of a fiscally sound and responsible Administration.

The objectives of the Department of Finance are:

- ◆ To prepare, present, and support the annual financial plan for the state.
- ◆ To assure responsible and responsive state resource allocation within resources available.
- ◆ To foster efficient and effective state structure, processes, programs, and performance.
- ◆ To ensure integrity in state fiscal databases and systems.

The Governor's proposed budget includes \$84.3 million (\$68.8 million General Fund) for 2007-08, an increase of \$33.1 million from the revised current year funding.

ISSUE 1: FISCAL

The Governor's proposed budget includes \$35.7 million and 237.7 positions for initial support of the Financial Information System for California (FISCAL) project.

FISCAL is a \$1.3 billion information technology project that will develop a statewide financial system that would be used by all state departments. This idea for FISCAL developed out of the Budget Information System (BIS), which was approved by the Legislature in 2005 to replace the Department of Finance's budget development system. As the Department of Finance began work on BIS, it became clear that all departments IT systems needed to be updated, and not just the Department of Finance.

While the proposed budget for 2007-08 only contains \$35.7 million (General Fund), the cost sores to \$221 million (General Fund) in 2008-09. In total, the project is projected to cost \$1.33 billion, including \$785 million from the General Fund.

COMMENTS

There is little debate about whether the state will eventually need to update the state's IT systems. The legacy systems are outdated and aging. Unfortunately the state's current fiscal condition raise the question of whether this is the time to commit over \$1 billion for a new IT system.

The Governor's proposed budget recognizes a General Fund shortfall and proposes \$3.4 billion in General Fund solutions, including cuts, fund shifts, modest tax increases, and other solutions.

Unfortunately, the state's budget condition has only gotten worse since the release of the Governor's budget. The LAO forecasts that the Governor's projected reserve of over \$2 billion, is actually a \$726 million *deficit*. And this is not just a budget year problem. The Department of Finance's own numbers show billion dollar annual operating deficits as far as the projections go.

Despite the potential merits of proposed IT system, the budget is always about setting priorities. And without any budget reserves, every dollar spent on a new IT system is a dollar taken away from something else. Should health care funds be cut for FI\$CAL? Should education be cut some more for FI\$CAL? Should UC and CSU fees be increased even further to fee up funds for FI\$CAL? Should Proposition 42 be suspended to make room for FI\$CAL? Should funds appropriated for levy repairs be redirected to FI\$CAL? Should prison sentences for convicted felons be reduced for FI\$CAL? Should taxes be increase to raise revenues for FI\$CAL?

With the state's fiscal condition so fragile at this point, committing hundreds of millions of General Fund dollars annually over the next several years will further put the budget at risk and put other priorities further at risk.

In addition to the fiscal constraints of the state, the state does not have a great track record on major IT projects. This would be the most significant project to date.

ISSUE 2: FISCAL SYSTEM AND CONSULTING UNIT

Fiscal Systems and Consulting Unit (FSCU) sets statewide fiscal and accounting policies and provides consultation and advice that benefits all departments throughout state government.

The Governor's proposed budget includes \$696,000 (non-General Funds) and five additional permanent positions for the FSCU. In addition, the funding for FSCU will be realigned to reflect the statewide service it provides. As a result, the proposal results in General Fund savings of \$249,000.

COMMENTS

According to the Department of Finance, the intent of the proposal is to transform FSCU into a premier accounting consulting entity. The transformed unit would be able to assist short-staffed and inexperienced departments to meet their accounting duties.

The Department of Finance state the proposal will enable FSCU to:

- ◆ Provide outreach, training and consultation to departments.
- ◆ Provide fiscal consultation to Department of Finance management and budget staff.
- ◆ Establish a presence in national accounting/fiscal associations.
- ◆ Revise outdated State Administrative Manual accounting sections.
- ◆ Analyze, evaluate, and revise accounting policies.
- ◆ Develop fiscal training in conjunction with the Office of Statewide Audits and Evaluation for auditors of statewide accounting.
- ◆ Increase the number and types of accounting courses offered to departmental staff.
- ◆ Resume offering the State Fiscal Manager's seminar.

ISSUE 3: OFFICE OF TECHNOLOGY REVIEW, OVERSIGHT, AND SECURITY

The Office of Technology Review, Oversight, and Security (OTROS) is within the Department of Finance and reviews and approves IT projects and handles statewide IT security issues.

The Governor's proposed budget eliminates OTROS and moves the positions and responsibilities to the newly created Office of the Chief Information Officer (review and approval of IT) and to the State and Consumer Affairs Agency (Security). This results in a reduction of \$3.3 million for the Department of Finance and the deletion of 29 positions.

COMMENTS

Senate Bill 834 (Chapter 533, Statutes of 2006) established the Office of the State Chief Information Officer (OCIO) to provide state IT with leadership, legal and legislative support, strategic planning, governance, policies, standards, expertise, and portfolio management.

However, SB 834 did not specify how the OCIO will be staffed, budgeted, etc. And while it does make sense for the OCIO to take on many of the responsibilities currently done by OTROS, the Department of Finance still remains the control department for the budget and state spending.

The Department of Finance should report at the hearing on how it will maintain its role in approving budget proposals concerning IT projects without the expertise currently provide by OTROS.