

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

### Part I

Assemblymember Rudy Bermudez, Chair

MONDAY, MAY 16, 1:30 PM

STATE CAPITOL, ROOM 447

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**ITEMS ON CONSENT****ITEM 0650 OFFICE OF PLANNING AND RESEARCH**

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**ISSUE 1: ELIMINATION OF THE SMALL BUSINESS REFORM TASK FORCE**

The administration is requesting that Trailer Bill language be adopted to repeal Section 65054.5 of the Government Code, to eliminate the Small Business Reform Task Force within the Governor's Office of Planning and Research.

**COMMENTS**

The Office of Planning and Research should be prepared to comment on the effectiveness of this task force in the past.

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**Chair Recommendation: Approve as budgeted**

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**ITEM 0890 SECRETARY OF STATE****ISSUE 1: MAY REVISION: REIMBURSEMENT ADJUSTMENTS**

The following reimbursement adjustments are being proposed in the May Revision:

1. It is requested that Item 0890-003-0001 be increased by \$1,528,000 and Reimbursements be decreased by \$1,557,000, associated with Lease Revenue Bond debt service adjustments reflected in a set aside Item in the January 10 Budget, related to Control Section 4.30.
2. It is requested that Item 0890-003-0228 be increased by \$482,000, and Reimbursements be decreased by \$492,000, associated with Lease Revenue Bond debt service adjustments reflected in a set-aside Item in the January 10 Budget, related to Control Section 4.30.

**COMMENTS**

Neither staff nor LAO has raised any issues with these proposals.

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**Staff Recommendation: Approve as budgeted**

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**ISSUE 2: MAY REVISION: ELIMINATION OF THE CALIFORNIA HERITAGE PRESERVATION COMMISSION**

The administration is proposing trailer bill language that would eliminate the California Heritage Preservation Commission. This proposal is part of a statewide effort by the administration to eliminate nonessential boards and commissions.

**COMMENTS**

The Secretary of State should be prepared to respond to what the commission's intended purpose is, why it was selected for elimination.

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**Staff Recommendation: Approve as budgeted**

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**ITEM 1100 CALIFORNIA SCIENCE CENTER****ISSUE 1: MAY REVISION PROPOSALS**

The following changes being proposed in the May Revision:

1. It is requested that Item 1100-001-0267 be increased by \$150,000 to reflect the costs for legal services related to the Los Angeles Coliseum lease negotiations and that Item 1100-001-0001 be amended to reflect this change.
2. It is requested that Item 1100-003-0001 be decreased by \$7,000 and Reimbursements be decreased by \$3,000 associated with Lease Revenue Bond debt service adjustments that were reflected in a set aside in the January 10 Budget, related to Control Section 4.30.

**COMMENTS**

Neither staff nor the LAO has raised any concerns regarding these proposals.

**Staff Recommendation: Approve as budgeted**

**ISSUE 2: MAY REVISION: CAPITAL OUTLAY**

It is being requested that the item 1100-497 be added to revert the existing appropriation authority for the California Science Center, Phase II project. Recently, the project received bids that were in excess of legislatively authorized appropriation levels. As an alternative, the California Science Center Foundation has now agreed to fully fund the construction phase of this project as long as the state agrees to lease the state-owned site to the foundation and enter into a lease purchase agreement to lease the Phase II facility from the Foundation upon completion of the project. The intent is that the value of the lease payments would be no more than what the state would have paid in annual debt service payments for the project.

In addition, Trailer Bill language is being proposed to authorize the California Science Center to enter into a site and lease-purchase agreement with the California science Center Foundation for the purpose of developing, constructing, equipping, furnishing and funding the Phase II project.

**COMMENTS**

Neither staff nor the LAO has raised any concerns regarding these proposals.

**Staff Recommendation: Approve as budgeted with proposed TBL.**

**ITEM 1111 DEPARTMENT OF CONSUMER AFFAIRS**

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**ISSUE 1: MAY REVISION PROPOSALS**

The following changes being proposed in the May Revision:

**Budget Bill Item 1111-003-0001, Support, Department of Consumer Affairs**

**Office of Privacy Protection**—It is requested that Item 1111-003-0001 be increased by \$446,000, to provide funding to implement a proactive education and outreach program to protect consumers against identity theft and to help law enforcement prosecute these crimes.

**COMMENTS**

This proposal is the result of recommendations made at a statewide summit on identity theft entitled "Locking up the Evil Twin." The proposed augmentations would allow the Office of Privacy Protection to increase identity theft education and outreach efforts to consumers, community-based organizations, the legal community, institutions of higher learning and law enforcement agencies.

Neither staff nor the LAO has raised any concerns regarding these proposals.

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**Chair Recommendation: Approve as budgeted**

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**ITEM 1760 DEPARTMENT OF GENERAL SERVICES**

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**ISSUE 1: MAY REVISION: TELECOMMUNICATIONS DIVISION BBL**

The following is being proposed by the administration in the May Revision:

It is request that language be added to Item 1760-001-0666 to authorize the Director of Finance to increase this item by up to \$10.7 million and associated positions, for the Office of Network Services within the Telecommunications Divisions of the Department of General Services, for any period prior to the Governor's Reorganization plan, or similar legislation, intended to create the Department of Technology Services, becoming law.

**COMMENTS**

This proposal gives the department needed flexibility in the case that the legislature does not approve the consolidation of the Office of Technology Services. Neither staff nor the LAO has raised any issues regarding these proposals.

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**Chair Recommendation: Approve as budgeted**

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**ISSUE 2: MAY REVISION: ADDITIONAL PROPOSALS**

The following were proposed by the administration in the May Revise:

1. It is requested that Item 1760-001-0666 be increased by \$9,683,000 and 65.7 Personnel Years, as follows:

*An increase of \$9,254,000 and 65.7 Personnel Years, to provide resources which will allow the Department of General Services (DGS) to take over the Special Education Alternative Dispute Resolution Program from the McGeorge School of Law.*

**LAO Concerns:** It is the LAO's understanding with regards to the OAH proposal, it is our understanding that the transfer of the Special Education Dispute Resolution Program has still not been finalized. For that reason, we recommend that the Legislature adopt the following budget bill language in Item 1760-001-0666:

*Upon the transfer of the Special Education Dispute Resolution Program, up to \$9,254,000 is available for the Office of Administrative Hearings to administer and operate the program.*

2. An increase of \$429,000, to fund an increase in costs to provide security services at the State Capitol.
3. It is also requested that Item 1760-001-0666 be revised to include Budget Bill language, requiring the DGS to transfer \$1,186,000 to the General Fund on an annual basis for 10 years beginning in 2005-06. Chapter 7, Statutes of 2004 (AB 156), provided deficiency funding for energy efficiency projects in state buildings due to the inability to issue energy efficiency revenue bonds pursuant to Government Code Sections 15814.1015814.27.

This funding was used to repay loans from the Pooled Money Investment Account (PMIA) that provided interim financing for these projects. These loans were made with the expectation that they would be repaid by the proceeds from the energy efficiency revenue bonds. Since these bonds could not be sold and these projects are completed, an alternative funding source was needed to repay these loans.

The transfer from the Department's budget to the General Fund represents the amount needed to repay the General Fund over a 10 year period plus five percent interest. These funds are from the utility savings that are being generated from the energy efficiency projects.

4. It is requested that the following actions be taken due to changes in lease revenue payments.
5. The following are changes associated with Lease Revenue Bond debt service adjustments that were reflected in a set aside Item in the January 10 Budget, related

to Control Section 4.30. Provision 1 of Item 1760002-0003 and Item 1760-002-0666, would also be amended to reflect the following changes:

- Decrease Item 1760-002-0666 by \$1,306,000.
- Increase Item 1760-003-0666 by \$9,000.
- Decrease Item 1760-002-0003 by \$6,000.
- Increase Reimbursements to Item 1760-001-0666 by \$13,073,000.

The following changes reflect changes in base rental payments, fees, and insurance costs, as well as a decrease to Reimbursements due to an updated debt service payment schedule for a lease revenue funded project:

- Increase Item 1760-002-0003 by \$4,000.
- Increase Item 1760-002-0666 by \$4,987,000.
- Decrease Reimbursements to Item 1760-001-0666 by \$14,471,000.

#### COMMENTS

Neither staff nor LAO has raised any issue with these proposals.

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#### **Chair Recommendation: Approve as budgeted with LAO recommendations**

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#### ISSUE 3: CAPITAL OUTLAY

The following capital outlay proposals were presented by the administration in the May Revision and other Finance letters:

1. **Withdraw Reversion Item:** In an April Finance Letter, it was requested that Item 1760-495 be added to revert \$500,000 authorized by Proposition 122. In a May Revision Letter, the Department of Finance is requesting that this item be withdrawn from consideration.
2. **Increase Reappropriation:** It is requested that the issue within the DGS Finance Letter adding Item 17492 to reappropriated funding authorized by Proposition 122 be revised to add the following schedule:
  - (3) 4029-Alameda, Oakland Police Administration Retrofit.

#### COMMENTS

Staff has no issue with these proposals.

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#### **Chair Recommendation: Approve DGS Capital Outlay as budgeted**

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**ITEM 2150 DEPARTMENT OF FINANCIAL INSTITUTIONS**

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**ISSUE 1: MAY REVISION: ELIMINATION OF CREDIT UNION ADVISORY COMMITTEE**

The following is being proposed by the administration in the May Revision:

Eliminate Credit Union Advisory Committee – It is requested that Item 2150-001-0298 be decreased by \$1,000 to reflect elimination of the Credit Union Advisory Committee (CUAC). The CUAC was established to advise the Commissioner of Financial Institutions on matters relating to the credit union business.

In order approve this request, related trailer bill language would need approval.

**COMMENTS**

Neither staff nor the LAO has raised any issues regarding this proposal.

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**Chair Recommendation: Approve as budgeted**

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**ITEM 2180 DEPARTMENT OF CORPORATIONS**

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**ISSUE 1: MAY REVISION: ELIMINATION OF MORTGAGE BANKERS ADVISORY COMMITTEE**

The following is being proposed by the administration in the May Revision:

Eliminate Mortgage Banker Advisory Committee – It is requested that Item 2150-001-0298 be decreased by \$1,000 to reflect elimination of the Mortgage Banker Advisory Committee (MBAC). The MBAC was established to advise the Commissioner on matters relating to the mortgage banking industry. Since the Department has now been regulating this industry for several years, the need to have a formalized advisory mechanism has diminished.

In order approve this request, related trailer bill language would need approval.

**COMMENTS**

Neither staff nor the LAO has raised any issues regarding this proposal.

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**Chair Recommendation: Approve as budgeted with Trailer Bill language**

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**ISSUE 2: APRIL FINANCE LETTER: TROOPS AGAINST PREDATORY SCAMS (TAPS) INVESTOR EDUCATION PROGRAM**

The following is being proposed by the administration in an April Finance Letter:

It is requested that item 2180-001-0067 be amended by increasing Reimbursements by \$150,000 to provide authority to fund the Troops against Predatory Scams Investor Education Program,

The Department has been awarded a three-year, \$150,000 annual grant from the Investor Protection Trust. The TAPS program is designed to educate members of the Armed Forces and Their families stationed within California about how to protect their finances against investment fraud and predatory financial schemes.

**COMMENTS**

Neither staff nor the LAO has raised any issues regarding this proposal.

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**Chair Recommendation: Approve as budgeted**

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**ITEM 2320 DEPARTMENT OF REAL ESTATE**

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**ISSUE 1: MAY REVISION: ELIMINATION OF REAL ESTATE ADVISORY COMMISSION**

The following is being proposed by the administration in the May Revision:

Eliminate Real Advisory Commission – It is requested that Item 2320-001-0317 be decreased by \$8,000 to reflect elimination of the Real Estate Advisory Commission. The Commission has provided advice and comments to the Real Estate Commissioner regarding changes to regulations and real estate market conditions. Because the primary function of this commission was to provide advice to the Commissioner this function can more efficiently be provided on an ad hoc basis, and through the Administrative Procedure Act process.

In order approve this request, related trailer bill language would need approval.

**COMMENTS**

Neither staff nor the LAO has raised any issues regarding this proposal.

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**Chair Recommendation: Approve as budgeted with Trailer Bill language**

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**ITEM 2920 COMMISSION OF THE CALIFORNIAS AND THE  
OFFICE OF CALIFORNIA-MEXICO AFFAIRS**

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**ISSUE 1: MAY REVISION: ELIMINATION THE COMMISSION**

The following is being proposed by the administration in the May Revision:

**Trailer Bill Language, Commission of the Californias and the Office of California-Mexico Affairs**

It is requested that the trailer bill language be approved to complete the elimination of the Commission of the Californias and the Office of California-Mexico Affairs from statute. Funding for the Commission and the Office was removed with the elimination of the Technology, Trade and Commerce Agency and the duties of these state agencies were not transferred to any other state agency in the reorganization legislation, Chapter 229, Statutes of 2003.

**COMMENTS**

Staff has no issue with this proposal.

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**Chair Recommendation: Approve as budgeted with Trailer Bill language**

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**ITEM 8950 DEPARTMENT OF VETERAN'S AFFAIRS**

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**ISSUE 1: MAY REVISION: VARIOUS PROPOSALS**

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The following is being proposed by the administration in the May Revision:

1. It is requested that Item 8950-001-0001 be increased by \$876,000, to provide a partial restoration of the unallocated reduction proposed in the Governor's Budget, in order to avoid reducing services to veterans.
2. It is requested that Item 8950-003-0001 be decreased by \$1,509,000, and Reimbursements increased by \$1,536,000, associated with Lease Revenue Bond debt service adjustments reflected in a set aside Item in the January 10 Budget, related to Control Section 4.30.
3. Additionally, Trailer Bill language is proposed to eliminate the California Mexican American Veterans' Memorial Beautification and Enhancement Commission.

**COMMENTS**

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Neither staff nor the LAO has raised any issues regarding these proposals.

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**Chair Recommendation: Approve as budgeted with Trailer Bill language**

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**ITEMS TO BE HEARD****ITEM 0520 BUSINESS TRANSPORTATION AND HOUSING AGENCY****ISSUE 1: MAY REVISE: CALIFORNIA FILM COMMISSION - CINEMASCOUT ENHANCEMENTS**

The May Revision includes \$500,000 General Fund for upgrading the server and software for the Film Commission's CinemaScout program, which is an online filming location photo browser. The proposed permitting system that would allow improved access to the digital database of 11,000 images of film sites located in the state.

**LAO Concerns**

There is currently no Feasibility Study Report (FSR) for this project; the BCP indicates that an FSR would be completed upon receiving project funding. Without an FSR, we have no basis for reviewing the project or the appropriateness of the proposed funding. We also think the cost of this project (following approval of an FSR) could be covered with fees currently authorized in statute, since the Film Commission is providing a service to the film industry. As a result, the LAO recommends that the Legislature deny the request.

**COMMENTS**

Last year the subcommittee approved \$600,000 for the purposes of procuring a computer system to implement a web-based film permitting process. The agency should be prepared to respond to how this system will integrate with the why these costs weren't included in the original BCP.

**ISSUE 2: MANUFACTURING TECHNOLOGY PROGRAM**

The Manufacturing Technology Program (MTP) works to improve the competitiveness of California's small and medium sized (SME) manufacturing firms through regional not-for-profit service providers in Northern and Southern California.

Operating in partnership with the National Institute of Standards and Technology's Manufacturing Extension Partnership (MEP) Program, MTP provides small and medium-sized manufacturers with access to a wide range of inexpensive high-quality business assistance including technical consultative services, work force training, and professional development.

**COMMENTS**

The Business Transportation and Housing Agency required the program to conduct a peer review on the value that the California Manufacturing Technology Center (CMTC) has to their businesses. In the report, it is estimated that the program at CMTC has impacted 7,400 employees, generating \$25 million in tax revenue to the State. Additionally, in the report it is stated that third party audits report that over a three year period, the MTP program has resulted in the following: 1) 439 million average Industry savings per year; 2) 2,199 million average industry employees trained per year; 3) \$231 million average sales increased and retained per year; 4) 2,213 average manufacturing jobs created and retained each year; 5) \$25 million average added to the California tax base per year.

The Governor's budget proposed to fund the program with \$2.2 million in reimbursement authority with no general fund support. The Agency and Finance should be prepared to comment on whether it expects reimbursement funding to materialize.

**ITEM 0890 SECRETARY OF STATE****ISSUE 1: MAY REVISION: HELP AMERICA VOTE ACT**

The following reimbursement adjustments are being proposed in the May Revision:

It is requested that Item 0890-490 be added and the following budget bill language be approved to provide the Secretary of State (SOS) reappropriation authority to continue the implementation of the Help America Vote Act (HAVA) of 2002.

*8260-490—Reappropriation, Secretary of State.*

*The balance of the appropriations provided in the following citations is reappropriated for the purposes provided in the appropriations and shall be available for encumbrance or expenditure until June 30, 2006:*

*0890-Federal Trust Fund*

- (1) Item 0890-001-0890, Budget Act of 2004 (Ch. 208, Stats. 2004).*
- (2) Item 0890-101-0890, Budget Act of 2004 (Ch. 208, Stats. 2004).*

**LAO RECOMMENDATION**

The following is the LAO concern's and recommendations for this proposal:

**CONCERNS WITH APPROACH**

**Reappropriating Excessive Authority.** The May Revision proposal would reappropriate up to \$264 million in HAVA funds. The spending plan, however, outlines a maximum of \$210.5 million in authorized spending over the current and budget years (\$200.7 million authorized in the current year, \$1.2 million for source code review proposed for the current year but not authorized by DOF, and \$8.7 million planned for the budget year).

**No BCPs.** During the March/April meetings related to the spending plan, the SOS and DOF agreed to provide BCPs for all future spending beginning in 2005-06. The administration, however, did not submit any BCPs with the May Revision. The SOS should have submitted 2005-06 BCPs totaling almost \$10 million for:

- County training grants (\$4.5 million).
- Statewide database (\$1.6 million).
- Voter education (\$735,275).
- Voting system reviews (\$275,000).
- Audits (\$1.5 million).
- Poll monitoring (\$65,000).
- Source code review (\$1.2 million).



In many cases, the justification previously submitted on these activities is no more than a few sentences. For instance, it is not clear that the requested level of auditors is necessary, given that the SOS contracts with MGT already requires auditing of all HAVA components. In addition, it is not clear whether DOF has approved any spending for the items on which it initially withheld recommendation (source code review and voter database).

**No Additional Detail on Administrative Costs.** As LAO pointed out in their Analysis, the current HAVA administrative budget of \$1.7 million for 2005-06 includes \$445,000 for unidentified “contingencies.” The SOS has never provided additional information to justify this amount.

**Statewide Database.** Under the administration’s proposal, the SOS could have an FSR approved for a statewide database, proceed with the procurement, and commit the state to a contract (with potential General Fund implications)—all without additional legislative review or approval.

### **LAO RECOMMENDED APPROACH**

As an alternative to the May Revision request, we recommend adoption of the following actions to allow the SOS to proceed in implementing HAVA while enhancing legislative oversight.

**Limit Reappropriation to Match Approved Spending.** There is no reason to authorize the reappropriation of funds in excess of the amounts approved in the spending plan. The recommended reappropriation language below, therefore, limits the authority to the \$200.7 million that was authorized in April for current-year spending. In addition, the language restricts the use of the funds to those activities and amounts approved in the spending plan.

**No Action Without BCPs.** We recommend withholding action on the \$10 million of new spending until BCPs are submitted. Upon review and approval of BCPs (presumably during conference committee), additional reappropriation authority could be added.

**Reduce Administrative Budget.** Given no justification has been provided regarding the \$445,000 in administrative expenses, we recommend reducing the \$1.7 million appropriation by a like amount.

**Statewide Database.** Assuming that \$1.6 million is eventually approved for the procurement costs of the statewide database, we recommend adding the provisional language below to provide for legislative oversight. First, in order to evaluate the approach for the database, the Legislature should have a 30-day review period upon approval of the FSR and prior to the expenditure of funds for procurement costs. Second, the Legislature should have the opportunity to fully evaluate the costs, benefits, and risks of the project during next year’s budget process—prior to the administration committing the state to a development contract.

## Recommended Budget Bill Language

### RE-APPROPRIATION LANGUAGE

0890-490—*Reappropriation, Secretary of State.*

*Up to a maximum of \$200,657,368 from the following appropriations may be, upon the order of the Director of Finance, reappropriated and shall be available for encumbrance or expenditure until June 30, 2006, subject to the provisions of this reappropriation:*

*0890-Federal Trust Fund*

(1) *Item 0890-001-0890, Budget Act of 2004 (Ch. 208, Stats. 2004).*

(2) *Item 0890-101-0890, Budget Act of 2004 (Ch. 208, Stats. 2004).*

*Provisions:*

1. *Funds shall be used consistent with the March 11, 2005 Help America Vote Act spending plan as approved by the Department of Finance. The amounts spent on each activity shall not exceed the following maximums:*

<i>(a) County voting equipment grants ...</i>	<i>195,000,000</i>
<i>(b) voter registration cards ....</i>	<i>590,000</i>
<i>(c) voting system review ...</i>	<i>25,000</i>
<i>(d) punch card replacement ...</i>	<i>2,684,657</i>
<i>(e) Disabilities grants ...</i>	<i>2,357,711</i>
2. *Notwithstanding any other provision of law, any funds not needed for an activity authorized in Provision 1 shall not be redirected to other activities and are not authorized for expenditure.*
3. *The Secretary of State shall forward to the Chairperson of the Joint Legislative Budget Committee copies of quarterly reports sent to the Department of Finance.*
4. *At the time of authorizing any reappropriation under this item, the Department of Finance shall report to the Chairperson of the Joint Legislative Budget Committee the amount and the designated activities of the funds.*

***Note: Given Senate actions to date regarding funding additional voter registration card costs with HAVA funds, the reappropriation amount would be \$521,000 higher, with a corresponding increase in provision 1 (d).***

### REDUCE ADMINISTRATIVE BUDGET

0890-001-0890--For support of Secretary of State, for payment to Item 0890-001-0001, payable from the Federal Trust Fund . . . ~~1,700,000~~1,255,000

(Conforming action in 0890-001-0001)

**LEGISLATIVE OVERSIGHT OF DATABASE**

*To add to reappropriation provision:*

5. *Funds designated in provision 1 (f) for the statewide database shall be authorized for expenditure by the Department of Finance not sooner than 30 days after notification in writing by the Department of Finance to the Chairperson of the Joint Legislative Budget Committee of its approval of a feasibility study report. The notification shall include a copy of the approved report, any conditions of the approval, and detailed information regarding how the funds designated in provision 1 (f) shall be used.*
6. *Notwithstanding any other provision of law, the Secretary of State shall not enter into a contract for the development of a statewide voter registration database prior to July 1, 2006. During 2005-06, the Secretary of State may contract for assistance in the development of any necessary procurement documents.*

**ITEM 1760 DEPARTMENT OF GENERAL SERVICES****ISSUE 1: MAY REVISION: STRATEGIC SOURCING**

In the Governor's budget it was anticipated that Strategic Sourcing efforts would create \$48 million in current year and \$96 million budget year savings to the state. In a May Revise letter, the administration is requesting that rather than assuming any savings in the budget, that Control Section 33.50 be amended to allow the Department of Finance to periodically reduce departmental appropriations as actual savings data becomes available.

The following are BBL changes proposed by the administration:

*SEC. 33.50. Notwithstanding any other provision of law, the Director of Finance is authorized to periodically reduce amounts in items of appropriation in this act for the 2005-06 fiscal year to reflect actual savings resulting from California's Procurement Initiative for the 21<sup>st</sup> Century. At least 30 days prior to the reduction of any item of appropriation, the Director shall provide notice to the Chairperson of the Joint Legislative Budget Committee."*

Additionally, the LAO has recommended the following additions to the budget bill language:

*SEC.33.50 Notwithstanding any other provision of law, the Department of Finance is authorized to periodically reduce amounts in items of appropriation in this act for the 2005-06 fiscal year to reflect actual savings resulting from California's Procurement Initiative for the 21st Century. At least 30 days prior to the reduction of any item of appropriation, the Director shall provide notice to the Chairperson of the Joint Legislative Budget Committee. The notice shall include, but is not limited to, (1) identification of the departments that received the savings, (2) when and how the savings was achieved, (3) identification of the types of goods and services where savings was achieved, and (4) the methodology used to calculate the savings.*

**COMMENTS**

Staff has no issues with the proposed changes by finance and the LAO.

**ISSUE 2: PRISON INDUSTRIES AUTHORITY**

In prior subcommittee hearings, concerns regarding the procurement process with Prison Industries Authority (PIA) was heard. The subcommittee requested that staff develop trailer bill language that provides the following:

- Eliminates PIA's authority to grant waivers.
- Requires DGS to conduct a sealed bid process.
- Requires that cost to the state be determined by price and quality.

Currently Government Code 14612 gives DGS authority, without a waiver process, to consider both goods from the private sector and from Prison Industries when conducting procurement. Under this statute, the director of DGS is to make a determination of cost benefit to the state when considering products in procurement. It is unclear in the language, however, what factors the director shall use to determine "cost beneficial."

**COMMENTS**

Under the subcommittee's direction, staff has developed the following trailer bill language that would designate "price" and "quality" as the determining factors evaluating cost benefit to the state.

**Government Code 14612**

*(a)Notwithstanding Section 2807 of the Penal Code, the director or his or her designee may procure goods from the private sector even though the goods may be available from the Prison Industry Authority, when in his or her discretion, it is cost beneficial to do so and if the director or his or her designee continues to include the authority in soliciting quotations for goods. Any cost analysis of goods referred to in this section shall only include cost and quality as determining factors.*

With regards to other concerns of the subcommittee, Government Code Section 1462 supplants PIA authority to require procuring entities request a waiver from PIA to procure from the private sector. Additionally, DGS has informed staff that the current bidding process is a sealed bidding process and no changes in statute are necessary.

**ISSUE 3: BOOKING TRAVEL ONLINE**

In Senate subcommittee hearings, the department and LAO agreed that there were possible savings to be achieved if the state were to shift to an online booking system for travel. Currently, when departments need to book travel, it is conducted primarily over the phone. The following budget bill language has been agreed to by the department and LAO and would direct DGS to create an online booking system for travel that departments would be directed to use.

*X. The Director of General Services shall, by June 30, 2006, establish a California State Travel portal for travel bookings. Up to \$250,000 and 1.0 position from the amount appropriated in this item may be used for this purpose, which may include staff support, travel, and training costs associated with the establishment of the portal. The Director of General Services is authorized to charge a fee to clients using the State travel contracts sufficient to recover the costs of its establishment, operations, and maintenance, as well as any associated costs, such as training.*

*(a) All departments shall utilize the California State Travel Portal for their travel bookings and shall revise departmental airline ticket booking policies to facilitate purchase of non-emergency tickets at least two weeks before the flight date as prescribed by Department of General Services Management Memo.*

*(b) The Director of General Services shall study the feasibility of expanding the California State Travel Portal to other airlines and other alternative approaches to reduce travel costs-and report to the Legislature no later than June 30, 2006. This study shall be completed within existing resources as provided in this appropriation.*

**COMMENTS**

This proposal would bring the state's travel booking process up to the current industry standard and would provide for possible budget year savings. Staff has no issue with this proposal.

**ISSUE 4: LOWERING PRESCRIPTION DRUG COSTS**

In prior subcommittee hearings, various concerns were raised by the subcommittee regarding the cost effectiveness of DGS's pharmaceutical procurement process.

In working with departments, Legislative staff, and others, the LAO has provided the following six statutory and budget bill recommendations (A through F):

**A. Require Collaboration Among State Drug Purchasers**

(Adopt the following as trailer bill language)

*It is the intent of the Legislature that the Department of General Services, University of California, and the Public Employees Retirement System share information on a regular basis with regards to each agency's drug purchasing activities. The sharing of information shall include, but is not limited to, prices paid for the same or similar drugs and information regarding drug effectiveness. It is the intent of the Legislature that the agencies meet, share information, and identify and implement joint cost savings activities that are mutually beneficial to the participating agencies. By January 10, 2006, and annually thereafter, the Department of General Services shall report to the Chairperson of the Joint Legislative Budget Committee and the chairs of the fiscal committees of both houses of the Legislature on the collaboration activities that the Department of General Services, University of California, and the Public Employees Retirement System conducted in the last 12 months and the savings attributable to joint drug cost savings from those activities. It is not the intent of the Legislature for the Department of General Services to disclose information which may adversely affect potential drug procurements conducted by the participating agencies.*

**B. Direct the University of California and DGS to Identify Consolidated Drug Purchasing Activities**

(Adopt the following as trailer bill language)

*The Department of General Services shall work with the University of California to identify opportunities for consolidating the drug purchases made by both agencies, in order to lower each agency's costs for prescription drugs. It is the intent of the Legislature that the University of California cooperates with the Department of General Services in these efforts.*

**C. Require DGS to Develop Annual Work Plan for Purchasing Drugs**

(Adopt the following as trailer bill language)

*The Department of General Services shall develop a work plan on an annual basis that includes, but is not limited to, a description of the department's annual activities to lower the state's costs for prescription drugs and the estimated savings that these*

*activities are expected to achieve. The department shall use the work plan when reporting to the Legislature on estimated and achieved savings resulting from drug purchasing activities. It is not the intent of the Legislature for the department to include or disclose information which may adversely affect potential drug procurements.*



**D. Require DGS Participation in Drug Reviews**

(Adopt the following as trailer bill language)

*The Department of General Services shall participate in at least one independent group that develops information on the relative effectiveness of prescription drugs.*

**E. Direct DGS and CDC to Compare Potential Methods to Control Parolee Drug Costs**

(Adopt budget bill language for Budget Item and 1760-001-0666. Department of Corrections budget item 5240-001-0001 will be separately amended)

*It is the intent of the Legislature that the state provide parolee medications in the most cost-effective manner. In deciding how to purchase parolee medications, the Department of Corrections, in consolidation with the Department of General Services, shall consider, but not be limited to, contracting with a pharmacy benefits manager and purchasing medications under pharmacy contracts used for prison inmates. The department shall compare the cost of such options and choose the lowest cost option(s).*

**F. Increase DGS Staff in Order to Create More Drug Contracts**

(These additional positions would consist of one Pharmaceutical Consultant II and two Associate Materials Analysts.)

Increase Budget Item 1760-001-0666 by \$306,000 and authorize three additional positions.

AB 76 (Frommer) was introduced this year to address many of the concerns identified in the *Perspectives and Issues* report. The bill seeks to create an Office of Pharmaceutical Purchasing in the Health and Human Services Agency, an office that would have the authority and duties to purchase prescription drugs for state agencies similar to the authority of DGS. If AB 76 should become chaptered, some of the statutory changes recommended by the LAO may no longer be necessary.

Chapter 409, Statutes of 2004 (AB 79, Dutra) placed a moratorium on several written reports to the Legislature until January 1, 2008. Included in the suspended reports is a requirement that DGS report on options and strategies related to prescription drug procurement, shown below as it appears in Government Code:

*14981. On or before February 1, 2005, the department shall submit a report to the appropriate policy and fiscal committees of the Legislature on activities that have been or will be undertaken pursuant to this chapter. The report shall include, but not be limited to, all of the following:*

*(a) The number and a description of contracts entered into with manufacturers and suppliers of drugs pursuant to Section 14977.1, including any discounts, rebates, or refunds obtained.*

*(b) The number and a description of entities that elect to participate in the coordinated purchasing program pursuant to Section 14977.5.*

*(c) Other options and strategies that have been or will be implemented pursuant to Sections 14978 and 14980.*

*(d) Estimated costs and savings attributable to activities that have been or will be undertaken pursuant to this chapter.*

**COMMENTS**

Staff has no issue with these proposals.