

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

Assembly Member Warren T. Furutani, Chair

THURSDAY, MAY 20, 2010  
STATE CAPITOL, ROOM 437  
UPON ADJOURNMENT OF SESSION

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## VOTE ONLY

### 8910 OFFICE OF ADMINISTRATIVE LAW

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#### ISSUE 1: CONVERT FUNDING TO FEE FOR SERVICE

The Governor's budget proposes to eliminate OAL's General Fund appropriation (\$1.7 million) and Central Service Cost Recovery Fund appropriation (\$1.1 million) for 2010-11 and replace them with a \$2.8 million appropriation from the newly created Regulatory Oversight Revolving Fund. This will shift Office of Administrative Law (OAL) to a fee for-service model, in which OAL would directly bill regulation-issuing departments for its costs.

#### BACKGROUND

The OAL ensures that state agencies comply with the Administrative Procedure Act (APA). The OAL carries out this responsibility by reviewing regulations proposed by the state's regulatory agencies, as well as determining whether other forms of regulation proposed by state agencies (such as an order, bulletin rule, or guideline) are valid. In addition, in the underground regulations program, OAL investigates whether certain rules should be subject to the APA. The office is also charged with publishing and continuously updating the official copies of adopted regulations, known as the California Code of Regulations. Currently, the OAL is funded through the General Fund and the Central Service Cost Recovery Fund.

#### COMMENTS

Concerns have also been raised that this proposal would create a financial disincentive for OAL clients, resulting in delays in the regulations process and an increase in underground regulations.

**ISSUE 2: AB 32 WORKLOAD**

The Governor's 2010-11 budget proposes \$273,000 (\$212,000 Regulatory Oversight Revolving Fund and \$61,000 Reimbursement Authority) and 1.5 PYs to address AB 32 (California Global Warming Solutions Act of 2006) workload, convert training abatements to Reimbursement Authority, and cover increased Office of Technology costs.

**BACKGROUND**

**AB 32 Workload.** AB 32 establishes a comprehensive program of regulatory and market mechanisms to achieve real, quantifiable, cost-effective reductions of greenhouse gases. Among other requirements, the California Air Resource Board (CARB) has to report and verify greenhouse gas emissions, monitor and implement regulations to reduce emissions of gases that cause global warming, and adopt a statewide greenhouse gas emissions limit.

CARB and other state agencies will have to engage in extensive rulemaking, requiring OAL review. In December 2008, the Air Resources Board adopted a Scoping Plan which provides the outline for actions to reduce California's greenhouse gas emissions. On August 10, 2009, CARB issued its Scoping Plan Measures Implementation Timeline. The timeline sets forth 73 specific regulatory measures to be taken by multiple state agencies.

This request includes \$199,000 from the Regulatory Oversight Revolving Fund, 1 full-time Staff Counsel III, and a .5 Legal Assistant to review and administer the technical and complex regulatory filings related to AB 32 mandates. The OAL reports that its current staffing level of 20 positions is not sufficient to handle this workload.

**Reclassify Abatements to Reimbursements.** The OAL provides training to state agencies on the state's regulatory process. This proposal would treat receipts from this training as reimbursements in 2010-11, similar to how they are treated by other departments.

**Data Center Increase.** This proposal includes \$13,000 from the Regulatory Oversight Revolving Fund to fund increased state data center costs.

**COMMENTS**

Staff notes that the majority of the proposals funding method depends on the approval of Issue 1 (Converting funding to fee for service).

**2100 ALCOHOLIC BEVERAGE CONTROL**

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**ISSUE 1: LIQUOR LICENSE FEE ADJUSTMENT**

The Governor's budget proposes to raise the fee for a general license by 15%, from \$12,000 to \$13,800. The proposed fee adjustment is projected to generate increased revenue of \$788,400.

**BACKGROUND**

Section 23954.5(b) of the Business and Professions Code establishes a \$12,000 original fee for a general license (beer, wine, and distilled spirits). The Department of Alcoholic Beverage Control (ABC) is authorized to issue licenses each year based upon county population increases.

The ABC is statutorily required to adjust its annual renewal fee by the Consumer Price Index (CPI). However, the original general license fee of \$12,000 has not been adjusted since 1995. If the general license fee were adjusted annually for the CPI since 1995, it would have been approximately \$17,700 in 2008.

A general license fee can be sold on the open market. The current market value for an off-sale general license in California is estimated between \$30,000 and \$50,000. The current market value for an on-sale license in California is estimated between \$60,000 and \$70,000. In metropolitan areas such as Los Angeles and San Francisco, a general license fee can be valued at up to \$100,000.

The ABC Fund is facing a structural deficit. Even with this fee increase and another revenue proposal (Issue 3), the fund is projected to expend approximately \$2.9 million more than revenues in 2010-11.

**COMMENTS**

The ABC Fund will not be able to sustain current expenditures levels without an increase in revenues. If reduced expenditures were required, the ABC reports that its local assistance grants for local law enforcement and Licensed Education on Alcohol and Drugs program would be the most likely affected.

**7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**

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**ISSUE 1: EMPLOYMENT TRAINING PROGRAM INITIATIVE**

The Governor proposes to implement an 18-month initiative for employers to apply through the Employment Training Panel (ETP) for both training grants and incentive payments to train and employ individuals for at least nine months. Training reimbursement is \$1,400 per employee after 3-months worked and the employer incentive payment is \$3,000 per employee after additional 6-months worked. The Administration estimates the Initiative will result in 140,000 individuals obtaining higher paying jobs, and 100,000 unemployed individuals with training leading to jobs.

This proposal requests 8 new ETP positions to administer the initiative. Trailer bill language authorizes ETP to enter into partnerships to receive funding by a transfer rather than direct appropriation to the Employment Training Fund and eliminates the exemption provided to negative reserve employers from paying the Employment Training Tax (ETT).

Issue discussed February 10, 2010.

**ISSUE 2: ECONOMIC AND EMPLOYMENT ENFORCEMENT COALITION**

The Employment Development Department requests on-going funds of \$2,638,000 and 25 positions beginning in 2010-11 for the continued funding of Employment Development Department's involvement in a joint agency education and enforcement effort conducted by the Economic and Employment Enforcement Coalition (EEEC). These resources will continue funding for various dedicated positions allocated specifically for the EEEC that are scheduled to expire June 30, 2010.

This proposal would be funded using the Employment Development Department's Contingency Fund (\$1,319,000) and the Disability Insurance Fund (\$1,319,000).

Issue discussed April 14, 2010.

**ITEM 0559 LABOR & WORKFORCE DEVELOPMENT AGENCY  
AND 7350 DEPARTMENT OF INDUSTRIAL RELATIONS****ISSUE 1: LABOR COMPLIANCE PROGRAM ENFORCEMENT OF APPRENTICESHIP  
LAW ON PUBLIC WORKS PROJECTS**

As a result of the passage of AB 395 (Fuentes) Chapter 438, Statutes of 2009, the Division of Apprenticeship Standards (DAS), within the Department of Industrial Relations, requests authority to add 2.5 positions at the cost of \$362,000 for 2010-11 and \$345,000 in subsequent years from the Apprenticeship Training funds. AB 395 provides authority to awarding agencies that implement an approved labor compliance program (LCP) to assist the Division of Apprenticeship Standards in the enforcement of prevailing rate wages laws and other requirements that apply to apprenticeships in public works projects through the operation of that approved labor compliance program.

This proposal will provide additional staff members to adopt regulations and establish an apprenticeship oversight structure for LCPs with respect to apprenticeship law enforcement. Additionally, these positions are needed to provide missing training in apprenticeship enforcement, be available to answer LCP questions about enforcement requirements, and review and assess penalties that occur as a result of a labor compliance program enforcement action. As currently staff, DAS states they cannot meet this newly created oversight function.

Issue was discussed April 14, 2010.

**ISSUE 2: SB 313 WORKERS' COMPENSATION INSURANCE ENFORCEMENT**

The Division of Labor Standards Enforcement (DLSE) is requesting approval for an augmentation of three positions and administrative costs totaling \$221,000 for fiscal year 2010-11 and \$363,000 annually thereafter to carry out workers' compensation insurance enforcement to comply with SB 313 (DeSaulnier), Chapter 640, Statutes of 2009. Funding for this proposal is requested from the Uninsured Employers Benefit Trust Fund (UEBTF), where increased deposits will offset costs. Effective date is January 1, 2011.

Issue was discussed April 14, 2010.

**ISSUE 3: DIVISION OF OCCUPATIONAL SAFETY HEALTH FUND (DOSH) LOAN REPAYMENT**

The Department of industrial Relations (DIR) is requesting to extend the repayment terms for the General Fund loan approved during the fiscal year 2009-10 May Revise. During that process, a General Fund loan to the Occupational Safety and Health Fund (OSH Fund) was approved in the amount of \$14.5 million with repayment of the loan scheduled for June 30, 2010. Due to cash flow needs that are predicated on the annual assessment on workers' compensation premiums for insured employers and a recent cap on that assessment, the Department of Industrial Relations (DIR) is requesting to extend the repayment date until June 30, 2011.

Issue was discussed April 14, 2010.

## ITEMS TO BE HEARD

### ITEM 8880 FISCAL

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#### ISSUE 1: FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FISCAL)

The Financial Information System for California (FISCAL), is an Enterprise Resource Planning (ERP) information technology (IT) project intended to create and implement a new statewide financial system which will encompass the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset accounting, project accounting, and grant accounting

#### SPRING FISCAL LETTER AND TRAILER BILL

On April 19<sup>th</sup>, the Department of Finance issued a Spring Finance letter for \$4.2 million to fund the fit-gap analysis that would begin the procurement process for the IT vendor. This reflects an acceleration of procurement schedule and a \$6.3 million reduction in the expected cost of the fit-gap analysis. The fiscal letter also makes a technical change to the funding allocation.

The FISCAL project has also requested technical trailer bill changes be adopted to conform the statute to the current project procurement plan.

#### LAO RECOMMENDATION

The Legislative Analyst's Office (LAO) believes the fit-gap analysis should require vendors to provide the Legislature with additional, potentially lower-cost alternatives for system development for replacing the state's aging financial infrastructure. In addition, LAO supports expanding the legislative reporting pause in current law to 60 days. This would give the Joint Legislative Budget Committee (JLBC) sufficient time to schedule a hearing if necessary to consider the merits of the bake-off proposals. Additionally, if there were major concerns, the JLBC would have the option to defer approval of the proposed plans for system development.

#### STAFF COMMENT

It is clear that the State of California's accounting system is limited and outdated and this hinders the ability of the State to adopt modern management and reporting practices in administration of all state functions. The aged computer accounting and budgeting platform must be replaced before major process improvements can be set in motion.

If the Subcommittee approves the budget proposal and the Spring Finance Letter, it will allow the fit-gap analysis to proceed. However, the Legislature will still have an opportunity to review the contract before a final commitment to the project would be necessary. Prospectively, the Legislature will also still need to approve positions to implement the project.

Adopting the LAO recommendations would offer the Legislature more time to review the FISCAL proposal next year and also create a less expensive option that could be considered.

**7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**

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The April Finance Letter requests an increase of \$9,079,000 in 2010-11 budget authority in the Unemployment Fund for 40 existing positions (36.5 Personnel Years) for five Unemployment Compensation Modernization projects. The dollars and positions represent the Unemployment Insurance program's share of project costs for the Electronic Benefit Payments (EBP) and Identity Management (IdM) projects, and the total project costs for the Continued Claim Certification Web (CCCW), eApply Modernization, and UI Forms projects for 2010-11. The increase in budget authority is necessary to use the Special Transfers for Unemployment Compensation Modernization funds provided under the American Recovery and Reinvestment Act (ARRA) of 2009.

The Modernization projects have been previously approved by Finance, the Office of the Chief Information Officer, and the Legislature.

**ISSUE 1: UNEMPLOYMENT COMPENSATION MODERNIZATION – ELECTRONIC BENEFIT PAYMENTS (EBP)**

The April Finance Letter requests an increase of \$185,000 in budget authority in the Unemployment Fund to support 2 existing positions (1.4 Personnel Years) for 2010-11. The resources will be used for the Electronic Benefit Payments (EBP) project to implement an electronic payment system that will allow benefit payments to be distributed electronically through ATM debit cards or direct deposit into the claimant's existing bank account, replacing the current paper warrants used to disburse Unemployment Insurance, Disability Insurance, and Paid Family Leave benefits to eligible claimants. Additionally, this request includes proposed trailer bill language to amend the California Unemployment Insurance Code in order to allow the EDD to be able to provide Disability Insurance benefit payments through the electronic means proposed as part of the EBP project.

This request is to change employer tax reconciliation from annual reconciliation to quarterly reconciliation. The purpose of this change is to improve collection efforts by reconciling employer taxes owed and paid more frequently.

**ISSUE 2: UNEMPLOYMENT COMPENSATION MODERNIZATION – IDENTITY MANAGEMENT (IDM)**

The April Finance Letter requests an increase of \$531,000 in budget authority in the Unemployment Fund to support 1 existing position (0.7 Personnel Years) for 2010-11. The resources will be used for the Identity Management (IdM) project that will allow EDD to ensure the integrity of its programs, services, and information assets by providing a secure, straightforward, multi-factor user authentication solution for all EDD web applications. The increase in budget authority is necessary to use the Special Transfers for Unemployment Compensation Modernization funds provided under the American Recovery and Reinvestment Act (ARRA) of 2009.

**ISSUE 3: UNEMPLOYMENT COMPENSATION MODERNIZATION – CONTINUED CLAIMS CERTIFICATION WEB (CCCW)**

The April Finance Letter requests an increase of \$883,000 in budget authority in the Unemployment Fund to support 5 existing positions (4.1 Personnel Years) for 2010-11. The resources will be used for the design, development, and implementation phase of the Continued Claims Certification Web (CCCW) project that will allow clients to use a web-based system to certify for benefits. The increase in budget authority is necessary to use the special transfers for Unemployment Compensation Modernization Funds provided under the American Recovery and Reinvestment Act (ARRA) of 2009.

**ISSUE 4: UNEMPLOYMENT COMPENSATION MODERNIZATION – EAPPLY MODERNIZATION**

The April Finance Letter requests an increase of \$5,051,000 in budget authority in the Unemployment Fund to support 25 existing positions (23.5 Personnel Years) for 2010-11. The resources will be used for the eApply Modernization project which will expand the types of Unemployment Insurance (UI) claims EDD can process through the eApply4UI application. The eApply Modernization project will eliminate staff review when the information provided by the claimant does not require EDD staff intervention allowing the Department to redirect resources to other high priority workloads.

**ISSUE 5: UNEMPLOYMENT COMPENSATION MODERNIZATION – UNEMPLOYMENT INSURANCE FORMS**

The April Finance Letter requests an increase of \$2,429,000 in budget authority in the Unemployment Fund to support 7 existing positions (6.5 Personnel Years) for 2010-11. The resources will be used for the Unemployment Insurance Forms project that will convert UI forms and correspondence to image format and allow UI Branch staff to have timely access to information, reduce handling of paper, and better manage workload. The increase in budget authority is necessary to use the Special Transfers for Unemployment Compensation Modernization funds provided under the American Recovery and Reinvestment Act (ARRA) of 2009.

**ISSUE 6: AMERICAN RECOVERY & REINVESTMENT ACT (ARRA) LABOR MARKET INFORMATION IMPROVEMENTS GRANT**

The April Finance Letter requests expenditure authority of \$625,000 of federal funds in 2010-11. EDD was awarded \$1,250,000 for the ARRA LMI Improvement Grant. The EDD previously requested \$625,000 of budget authority for 2009-10 through a Section 28.00 and is now submitting a Finance Letter for the remainder of the funds.

These ARRA grant funds, awarded by the Department of Labor, will enable the EDD to support ARRA Investments in energy efficiency and renewable energy industries.

**ISSUE 7: AUTOMATED COLLECTION ENHANCEMENT SYSTEM – QUARTERLY RECONCILIATION TRAILER BILL**

The purpose of this proposal is to request trailer bill language for the adoption of recommended changes to Sections 1088, 1112.5, 1113.1, 13021 and 13050 of the California Unemployment Insurance Code (CUIC). These recommended statutory changes for employers will eliminate the requirements to file an annual contribution reconciliation form. The contribution return of taxable wage information filed quarterly by employers will be modified to allow the EDD to reconcile taxes paid with taxes due each quarter. Additionally, EDD is pursuing the implementation of regulatory changes for modification of the quarterly filing of wages and withholdings and payment of payroll taxes.

**ISSUE 8: UI SBR FUNDING – IT & AUTOMATED INTEGRITY RELATED SYSTEMS**

This April Finance Letter will provide the Employment Development Department with Program 21 and Program 22 budget authority for \$4,426,000 in Supplemental Budget Request (SBR) funds awarded to California by the Department of Labor (DOL) for 16.3 unfunded positions (15.5 Personnel Years).

This SBR allocation provides funding which will be used to expand UI call centers, educate UI claimants on receiving UI benefits via debit cards, redesign the Benefit Claims Inventory System, procure a consultant to re-engineer and design a new electronic business process for California Unemployment Insurance Appeals Board's (CUIAB) and EDD's appeals processes; procure a consultant to document and design an electronic case management appeals process at CUIAB and EDD, integrate 60 workstations with text-to-speech hardware/software for Administrative Law Judges, re-design the CUIAB Wide Area Network Infrastructure and improve UI IT security and the UI IT Contingency Plan. Proposed language has been submitted that requires approval from both the Office of the State Chief Information Officer and the Department of Finance in order to expend the SBR allocation.

**ISSUE 9: UI SBR FUNDING – IT & AUTOMATED INTEGRITY RELATED SYSTEMS**

This April Finance Letter will provide the Employment Development Department with Program 21 budget authority for \$3,211,000 in Supplemental Budget Request (SBR) funds awarded to California by the Department of Labor for 13.4 unfunded positions (12.7 Personnel Years).

This SBR allocation provides funding which will expand Unemployment Insurance call centers, begin the process for educating UI claimants on receiving UI benefits via debit cards, redesign the Benefit Claims Inventory System, provide security training and improve the UI IT Security and UI Information Technology Contingency Plan.

\$1,661,000 of this request is associated with the Alternative Base Period project. Proposed provisional language has been submitted that requires approval from both the Office of the State Chief Information Officer and the Department of Finance in order to expend the SBR funds.

**ISSUE 10: UI SBR FUNDING – IT & AUTOMATED INTEGRITY RELATED SYSTEMS**

The April Finance Letter request will provide the Employment Development Department with Program 22 budget authority for \$1,215,000 in Supplemental Budget Request (SBR) funds awarded to California by the Department of Labor for 2.9 unfunded positions (2.8 Personnel Years).

This SBR allocation provides funding to procure a consultant to re-engineer and design an electronic business process for CUIAB's and EDD's appeals processes, procure a consultant to design an electronic case management appeals process for CUIAB and EDD, integrate 60 existing workstations with speech to text software for Administrative Law Judges, and upgrade the CUIAB Wide Area Network Infrastructure to replace obsolete and slow technology and design. Each of these efforts will help to increase productivity in serving claimants and employers. \$758,000 of this request is associated with the Digital Imaging for Appeals and the Smart Schedulers efforts. Proposed provisional language has been submitted that requires approval from both the Office of the State Chief Information Officer and the Department of Finance in order to expend the SBR funds.

**7350 DEPARTMENT OF INDUSTRIAL RELATIONS**

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**ISSUE 1: ELECTRONIC ADJUDICATION MANAGEMENT SYSTEMS (EAMS) 1 –  
MAINTENANCE & OPERATION**

The April Finance Letter requests to redirect 3.5 positions (3.3 Personnel Years) and increase authority by \$918,000 in 2010-11 and \$624,000, thereafter, for the Division of Administration, Office of Information Services to begin the critical ongoing maintenance activities that are necessary to the current EAMS. These resources are critical to ensure that unauthorized access to personal and confidential information is prevented, and to ensure that medical care and disability payments are provided in a timely fashion.

Fund Source: Workers' Compensation Administration Revolving Fund

**ISSUE 2: PUBLIC WORKS COMPLIANCE CHANGES**

The April Finance Letter states that due to the many uncertainties associated with bond allocations, the resources requested by this proposal shall not be appropriated directly to the Department, and shall be subject to the availability of funds determined by the Director of Finance.

Once bond funding is available to the Department, the Department of Industrial Relations requests to enable the Division of Labor Standards Enforcement to establish a Public Works Compliance Monitoring Unit (CMU) and meet the monitoring and enforcement requirements of SBX2 9. Funding in the amount of \$6.8 million in the first fiscal year that funding is available and \$9.9 million thereafter is requested from the State Public Works Enforcement Fund.

**ISSUE 3: RESIDENTIAL PREVAILING WAGE SURVEY (CENTRAL VALLEY)**

In last year's budget, the Department received \$844,000 in 2009-10 and \$798,000 ongoing to conduct an Initial Residential Prevailing Wage Survey in the Central Valley. The Subcommittee has been requested to adopt control language to discontinue General Fund support for this survey.

X. No funds have been appropriated to the Department by the Act to continue, carry out or implement employer wage surveys to determine residential prevailing wage rates for the Central Valley counties. No funds appropriated by this Act may be used for that purpose.