

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

**Assemblymember Rudy Bermudez, Chair**

**MONDAY, MAY 22<sup>ND</sup>, 2006, UPON ADJOURNMENT OF SESSION**  
**STATE CAPITOL, ROOM 437**

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## ITEMS FOR CONSENT

### **ITEM 0845**                    **DEPARTMENT OF INSURANCE**

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**Finance Letter.** Increase of \$1,347,000 to address Workers' Compensation Insurance fraud. This funding is made available to the DA's through grants. The FAC voted in December 2005 to increase the assessment amount for workers' compensation insurance fraud, and this finance letter is requesting spending authority. Action taken by the Senate; approve \$1.3 million for one year only and have department report back in a year with a status report on the Workers' Compensation Research Study.

**Re-open the Implementation of the Patient and Provider Protection Act.** This issue was first heard in the Assembly on March 21<sup>st</sup> and the action taken was to approve as requested. Action taken by the Senate on April 26<sup>th</sup> was to approve 8 positions. Requested action by the Assembly is to conform to the Senate.

**Staff Recommendation:** Concur with Senate Actions and approve finance letter as budgeted and make conforming changes to the Patient and Provider Act budget proposal.

**ITEM 2100**                    **DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

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**April Finance Letter:        Licensing and Compliance System**

It is requested that \$635,000 be augmented to provide funding for implementing the previously approved licensing and compliance system information technology project.

**May Revise: Revert Unused Licensing and Compliance System funds**

It is requested that \$1.3 million (Alcohol Beverage Control Fund) be reverted for the Alcoholic Beverage Control's licensing and Compliance System Project due to recently filed litigation.

**Staff Recommendation:** Approve Finance Letters

**ITEM 2310            OFFICE OF REAL ESTATE APPRAISERS**

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1. **Reduction for Attorney General Costs (Finance Letter #1).** The Administration requests a budget reduction of \$259,000 (special fund) to align budgeted resources for attorney costs with actual expenditures. This would correct a previous miscalculation in the amount needed for payments to the Attorney General.
  
2. **Conforming Budget Bill Language.**  
**This BBL was adopted by the Senate. Staff has no issues with it.**
  2. *The Department of Real Estate shall report to the committee of each house of the Legislature that considers the Budget Bill and the Legislative Analyst's Office by January 10, 2008, (a) actual workload data for 2005-06, and 2006-07 compared to the workload projected by the Department in February 2006, (b) projected workload data for 2007-08 and 2008-09, and (c) any staffing and funding changes requested based on (a) and (b). Workload data shall include, at a minimum, the total number of licensees; the number of on-site and off-site exams scheduled; the number of licenses issued; the number of enforcement cases assigned; the number of audits performed; the number of Subdivision Program filings; and the number of legal actions filed.*

**Staff Recommendation:** Approve the request.

**ITEM 2150****DEPARTMENT OF CORPORATIONS****ITEM 2180****DEPARTMENT OF FINANCIAL INSTITUTIONS****CONSENT ISSUE #1: IMPLEMENTATION OF SB 1**

**Revised Corporations Staffing Proposal:** The Department has submitted a BCP-type document explaining and justifying the following adjustments, which shift positions approved for SB 1 workload to general enforcement / investigative workload and result in no net change to funding or positions relative to the Governor's Budget:

- Maintain one Examiner position for SB 1 workload.
- Officially recognize that 9 of 10 positions originally established for SB 1 workload have been redirected to perform general enforcement work due to a low level of realized SB 1 workload.
- Reclass three of the nine positions to Investigators. This would restore the "Investigator" classification and function to the Department.

The Department justifies retaining these "SB 1" positions which have been performing non-"SB 1" enforcement work, by citing an increase in the level of enforcement activity: the number of Desist and Refrain Orders increased from 88 in 2004 to 142 in 2005; and the number of Administrative Actions increased from 65 in 2004 to 99 in 2005. Additionally, the reclassifications to create three Investigators would allow the Department to identify fraud while it is occurring versus after a consumer has lost money and to ensure compliance with Desist and Refrain Orders.

Additional Justification Detail: The Department provided the following information on May 4 to further justify the revised staffing proposal:

- The data shows a correlation between staff and enforcement actions – there was a decrease in enforcement actions as the enforcement staff fell from 2002 through 2004, with an upturn as the "SB 1" positions were diverted to general enforcement in 2005 and 2006.
- There was a 30percent increase in the licensee population between 2002-03 and 2004-05.

The Department does not maintain adequate data on rejected complaints, so staff is unable to review data in this area to further analyze the staffing need.

**Revised DFI Staffing Proposal:** The DFI has submitted a BCP-type document explaining and justifying the following adjustments, which results in no net change to funding or positions relative to the Governor's Budget:

- Retain two Examiner positions to perform SB 1 workload – all audited firms would be checked for SB 1 compliance.
- Retain one Counsel position, which would primarily perform new workload related to the Bank Security Act and other litigation matters, but would also spend about 20 percent of work hours on SB 1 issues.
- Redirect three SB 1 positions to the Special Licensees Program. This program enforces laws and regulations related to the money transmitter industry. The number of money-transfer transactions has increased 212 percent from 2000 to 2005 (from 10.9 million transactions to 34.1 million). There has been a concurrent increase in the number of money transfer firms, the number of DFI exams, and enforcement actions; but no increase in approved positions. DFI has been utilizing three retired annuitants to assist with the increased workload, but has still been unable to address all workload issues.

**Staff Recommendation:** Concur with Senate action: Approve the Revised Department of financial Institution SB 1 proposal and the revised Corporations staffing proposal.

<b>CONSENT ISSUE #2: CREDIT UNION ADVISORY COMMISSION AUGMENTATION</b>
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**Staff Recommendation:** Provide an ongoing \$5,000 augmentation (Credit Union Fund) for the Credit Union Advisory Commission.

This funding was removed in the 2004-05 budget and it has been requested that the commission retain minimal baseline funding to keep the Commission in the budget.



**ITEM 8620      FAIR POLITICAL PRACTICES COMMISSION**

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Approve Budget as proposed with the following supplemental report language:

***Workload Reporting.*** The Fair Political Practices Commission shall report to the Joint Legislative Budget Committee by March 1, 2007 and annually thereafter on its workload. The report shall, at a minimum, include the number of cases opened and prosecuted, the number of legal advice letters requested and issued, the number and amount of fines assessed and waived, and the number and amount of any civil judgments.

**ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT****CONSENT ISSUE #1: MAY REVISION CASELOAD CHANGES**

The May Revision includes several changes to EDD budget to reflected updated caseload trends and projected federal revenue.

**BACKGROUND**

The May Revision includes several changes to EDD budget to reflected updated caseload trends and projected federal revenue. These changes include:

1. A decrease of \$1,328,000 and 20.1 personnel years to reflect an adjustment due to revised Unemployment Insurance (UI) Program workload estimates for Employment Development Department (EDD).
2. An increase of \$686,000 and 8.2 personnel years to reflect an adjustment due to revised workload estimates for the California Unemployment Insurance Appeals Board (CUIAB).
3. A decrease of \$65,013,000 to reflect a projected decrease in UI benefit payments.
4. A reduction of \$2,185,000 and 34.6 personnel years to reflect an adjustment due to revised workload estimates for EDD.
5. A reduction of \$542,000 and 6.0 personnel years to reflect an adjustment due to revised workload estimates for CUIAB.
6. A reduction of \$105,518,000 to reflect a projected decrease in Disability Insurance benefits payments.
7. An increase of \$351,000 to reflect a projected increase in state operations for the Consolidated Workers Program under the Workforce Investment Act.
8. An increase of \$5 million to reflect the receipt of Workforce Investment Act Special Grant funds for the Workforce Innovation in Regional Economic Development Initiative. The grant totals \$15 million over a three-year period, and will be used to ensure that workers are trained and available for high-tech jobs.

**CONSENT ACTION**

Adopt May Revision Letter.

**ITEM 8960 DEPARTMENT OF VETERAN'S AFFAIRS**

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**CONSENT ISSUE #1: MAY REVISION PROPOSAL**

The May Revision proposes funding for a feasibility study related to replacing the Veterans Home Information System.

**BACKGROUND**

The May Revision proposes funding for a feasibility study related to replacing the Veterans Home Information System. The proposal would cost \$421,000 to retain consultants to prepare the report.

**CONSENT ACTION**

Adopt May Revision Letter.

**CONSENT ISSUE #2: SALARY SAVINGS EXEMPTION**

The Subcommittee will consider conforming to a Senate action on Salary Savings.

**BACKGROUND**

The Governor's budget proposes \$1.7 million to exclude 27.8 PY of nurses and other 24-hour care staff from the calculation of salary savings for CDVA. This change would be consistent with the practice of other State departments, which currently exclude their 24-hour care facilities staff from salary savings calculations.

**SENATE ACTION**

Based upon feedback from the LAO and Finance and an analysis of the actual work performed by the positions listed by the Department, the Senate reduced the proposed salary savings item by \$600,000.

**STAFF COMMENT**

The proposed salary savings exemption also includes positions years. The Department would not need to authorize these extra PY's in order to exempt current positions from salary savings. If the Subcommittee chooses to approve the request for additional salary funding for DVA, it should delete the extra PYs.

**CONSENT ACTION**

Conform to Senate.

**ITEM 9100 TAX RELIEF**

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**CONSENT ISSUE #1: MAY REVISION ESTIMATE**

**May Revision Update.** Based on updated estimates, the May Revision requests a total net increase of \$7.7 million (General Fund) as follows:

**Increased Funding Estimate for Senior Citizens' Property Tax Assistance and Renters' Tax Assistance Programs.** The May Revision requests an increase of \$5,563,000 to reflect a decrease of \$420,000 in the Senior Citizens' Property Tax Assistance Program and an increase of \$5,983,000 in the Senior Citizens' Renters' Assistance Program. These changes are based on revised participation calculations from the Franchise Tax Board.

**Increased Funding Estimate for the Senior Citizens' Property Tax Deferral Program.** The May Revision requests an increase of \$2,100,000 to reflect the receipt of revised participation calculations for the Senior Citizens' Property Tax Deferral Program from the State Controller's Office.

**ITEM 9620                    PAYMENT OF INTEREST ON GENERAL FUND LOANS**

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The Governor's Budget in January included Budget Bill appropriations of \$20 million for interest on internal cash-flow borrowing (short-term borrowing within the state treasury from special funds) and \$9.3 million for interest costs on prior budgetary loans from special funds to the General Fund. Interest is paid at the same time that the budgetary loans are repaid.

**CONSENT ISSUE #1: MAY REVISION LOAN REPAYMENTS**

The May Revision requests an increase of \$21 million for payment of interest on 13 additional budgetary loans that the administration intends to repay to various special funds in 2006-07—a year ahead of the previous schedule.

**ITEMS FOR VOTE ONLY****ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT****VOTE ONLY ISSUE #1: DISLOCATED WORKER FUNDING FORMULA**

A change to the Bureau of Labor Standards statistics has impacted the State's allocation of Dislocated Worker funding.

**BACKGROUND**

In 2004, the Federal Bureau of Labor Statistics removed agricultural and governmental labor force data from calculation of Mass Layoff Statistics. Mass Layoff Statistics are one factor used by the state to calculate the allocation of Workforce Investment Act (WIA) Displaced Worker funds. The absence of this statistical information changed the overall allocation of these funds among the local areas, decreasing the allocation for some areas, including Fresno, and increasing it for others. Last year, EDD used historical data on mass layoff statistics to estimate the loss of funding for areas of the State affected by this federal change and offered supplemental funds to mitigate this effect.

EDD does not intend to continue this mitigation in the budget year. The Fresno County Workforce Investment Board has requested that the Subcommittee consider taking action to mitigate the impact of this change on its allocation.

**PROPOSED BUDGET  
BILL LANGUAGE**

The Subcommittee took an action on May 9<sup>th</sup> to require EDD to report on this issue by January 1<sup>st</sup>, 2006. The action included Budget Bill Language that some advocates feel is unclear. To remedy this situation the following Budget Bill Language has been proposed to clarify the position of the Subcommittee:

*The Employment Development Department (EDD), in consultation with the California Workforce Investment Board (CWIB), will report to the Joint Legislative Budget Committee no later than January 1, 2007 a report which includes a revised state allocation formula for federal Workforce Investment Act (WIA) funding for Dislocated Workers that includes the counting of agriculture, government, fishery, hunting and forestry workers in said formula. The report shall assess the current allocation formula, issues caused by changes in the elimination by the Bureau of Labor Statistics (BLS) in counting agriculture, government, fishery, hunting and forestry workers, possible resolutions to the elimination of counting these workers, and a recommendation as to which revised process should be used to capture these excluded workers. To ensure*

*public input on this issue, the Legislature further intends that the administration shall present its analysis and draft report at a regular and/or special meeting of the California Workforce Investment Board, or its committees, prior to the above date. It is the intent of the Legislature that funding for Dislocated Workers be allocated upon a counting of California workers that includes agriculture, government, fishery, hunting and forestry workers and that funding be adjusted to reflect the recommendation that includes counting of said workers after the release of the report on January 1, 2007.*

**VOTE-ONLY ACTION**

- Rescind Previous Action on this issue.
- Adopt Budget Bill Language above that clarifies the Subcommittee's intent.

**VOTE-ONLY ISSUE #2: HEALTH CARE WORKFORCE DEVELOPMENT PROGRAM**

The Subcommittee will provide funding to continue the Health Care Workforce Development Program.

**BACKGROUND**

The Health Care Workforce Development Program was established as a partnership between Los Angeles County Department of Health Services (DHS or the Department) and SEIU Local 660 to strengthen and stabilize the public health safety net by training and upgrading DHS employees. The workforce development program was part of a larger vision to restructure and stabilize County DHS, an effort that was mandated by, and partially funded by the extension of the 1115 Waiver Demonstration Project (Waiver 2000 – 2005). The 1115 Waiver extension included an amendment to establish a workforce development program for workers impacted by (or at risk from) restructuring, and \$40 million in State and County funds was earmarked for this purpose.

The viability of the County DHS is essential because the Department serves as the critical safety net to the county's growing population of uninsured and poor, currently estimated at close to three million or nearly a third of the County's ten million inhabitants. Half of the state's uninsured children are estimated to reside within LA County borders. DHS is the second largest healthcare system in the nation employing 23,600 workers at five hospitals, six comprehensive health centers, 20 clinics, and numerous public health programs and partnerships. DHS facilities and programs provide over two million outpatient visits and 550,000 inpatient days annually, as well as three quarters of inpatient indigent care, half of all trauma, and 15% of emergency care services (Los Angeles Department of Health Services, Executive Office, Administrative Services, September 2005).



Despite its scope and size, an erosion in insurance coverage, declining hospital capacity, and staff shortages within the Department, local industry and region impact the Departments' continued ability to provide continuous quality care. County DHS desperately needs licensed nurses, certified medical record coders, licensed psychiatric technicians, ultrasound, MRI, and radiological technicians, as well as skill enhancement programs to ensure that DHS employees have the current technical skills to provide excellent care and remain employed. The Health Care Workforce Development Program was a multi-year State-County effort to retrain the current DHS workforce to fill these vacancies with existing staff.

The Governor's Budget does not include funding for the Health Care Workforce Development Program, although the State still owes \$11 million of its commitment for the program. Los Angeles County has asked that \$5.7 million General Fund be appropriated to allow the program to continue in the budget year. If this funding is not adopted, many workers will not be able to complete their training.

#### **VOTE-ONLY ACTION**

Appropriate \$5.7 million General Fund to continue the Health Care Workforce Development Program.

#### **VOTE-ONLY ISSUE #3: EMPLOYMENT TRAINING FUND**

The Subcommittee will change the transfer of Employment Training Fund to CalWORKs.

#### **BACKGROUND**

The Employment Training Panel awards grants from the Employment Training Fund (one-tenth of one percent of subject unemployment insurance wages paid by every private, for-profit employer in the state and some non-profits also) amounting to no more than \$7.00 per covered employee per year. ETP usually provides between \$70-\$80 million per year in training funds. In general, companies are eligible to apply for ETP funding provided they are paying into the state's Employment Training Fund (ETF) and:

- Are hiring and training unemployed workers who are receiving unemployment insurance (UI) benefits; and/or
- Face Out-of-State competition and need to retrain current employees; and/or
- Have special, unique training programs in all Special Employment Training (SET) categories.

The May Revision proposes to transfer \$32.9 million of Employment Training Fund funding to the CalWORKs program.

The Senate took action to reverse this transfer.

<b>BUDGET BILL LANGUAGE</b>
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The Subcommittee could adopt the following Budget Bill Language for the Employment Training Panel funding:

*Priority for Employment Training Panel grants will be targeted towards helping workers in occupations that pay at or near the minimum wage develop skills to move into better paying jobs.*

<b>VOTE-ONLY ACTION</b>
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- Undue transfer of \$32.9 million of Employment Training Funds to CalWORKs.
- Adopt Budget Bill Language listed above.

**ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS****VOTE-ONLY ISSUE #1: CHANGES TO WORKER'S COMPENSATION**

DIR has proposes several adjustments in the budget associated with the enforcement of Worker's Compensation laws.

**BACKGROUND**

The budget contains five proposed changes related to recent legislation regarding worker's compensation. These changes are as follows:

1. Return-to-work—The budget includes \$577,000 and one PY for payments to small employers who comply with the Return-to-work program. The program is proposed to be implemented for the first time in the budget year.
2. Repeal of the \$100 Initial Lien Filing Fee—The Budget trailer bill proposes to repeal a requirement that medical-legal providers pay a \$100 filing fee when filing an initial lien on a claim. The administration believes that the fee requirement is not resulting in the settlement of claims and is a significant workload burden. The Department believes it will need an additional \$294,000 and 5 PYs to address the additional workload if the lien filing fee is not repealed.
3. Position Upgrade—The budget includes \$971,000 to reclassify 134.5 positions into a higher paid classification that reflect the more complex nature of the work performed.
4. Security Upgrade—The budget includes \$238,000 for the California Highway Patrol to provide security at the Worker's Compensation's two largest offices in Van Nuys and Los Angeles and \$60,000 to begin security measures such as staff IDs and physical barriers between staff and public areas in all district offices.
5. Extension of Limited Term Positions—The budget continues four PY of limited-term legal positions for an additional two years. These positions are associated with the implementation of the worker's compensation legislative changes contained in SB 899 of 2004. The Legal Unit received 5.5 limited-term positions in 2004, but believes that workload justifies continuing 4.0 of these positions until 2008.

**LAO RECOMMENDATION**

The LAO recommends transferring unused fund balance of the Workplace Health and Safety Revolving Fund to the General Fund. The administration proposes trailer bill language to transfer the remaining \$507,000 fund balance of the dormant Workplace Health and Safety Revolving Fund to the Workers' Compensation Administration Revolving Fund. The larger revolving fund currently has sufficient funding. Even with \$3.8 million in DWC requests to pay for increased facilities, personnel, and security costs, DIR projects that the Workers' Compensation Administration Revolving Fund will maintain a \$65 million fund balance at the end of 2006-07, which represents 43 percent of revenues (without an increase in employer assessments or other workers' compensation fees). Moreover, the fund balance of the Workplace Health and Safety Revolving Fund was accumulated during the years in which the General Fund provided the bulk of DWC funding. The monies are derived from penalties, making them eligible for transfer to the General Fund. Given the state's fiscal condition, the LAO recommends amending the administration's trailer bill language to transfer the unused balance of the Workplace Health and Safety Revolving Fund to the General Fund.

**TRAILER BILL ON LIENS**

The Department has submitted the following revised Trailer Bill Language that reflects a compromise on lien language reached with California Applicant Attorney's Association:

4603.2. Upon selecting a physician pursuant to Section 4600, the employee or physician shall forthwith notify the employer of the name and address of the physician. The physician shall submit a report to the employer within five working days from the date of the initial examination and shall submit periodic reports at intervals that may be prescribed by rules and regulations adopted by the administrative director.

(b) (1) Except as provided in subdivision (d) of Section 4603.4, or under contracts authorized under Section 5307.11, payment for medical treatment provided or authorized by the treating physician selected by the employee or designated by the employer shall be made at reasonable maximum amounts in the official medical fee schedule, pursuant to Section 5307.1, in effect on the date of service. Payments shall be made by the employer within 45 working days after receipt of each separate, itemization of medical services provided, together with any required reports and any written authorization for services that may have been received by the physician. If the itemization or a portion thereof is contested, denied, or considered incomplete, the physician shall be notified, in writing, that the itemization is contested, denied, or considered incomplete, within 30 working days after receipt of the itemization by the employer. A notice that an

itemization is incomplete shall state all additional information required to make a decision. Any properly documented list of services provided not paid at the rates then in effect under Section 5307.1 within the 45-working-day period shall be increased by 15 percent, together with interest at the same rate as judgments in civil actions retroactive to the date of receipt of the itemization, unless the employer does both of the following:

(A) Pays the provider at the rates in effect within the 45-working-day period.

(B) Advises, in the manner prescribed by the administrative director, the physician, or another provider of the items being contested, the reasons for contesting these items, and the remedies available to the physician or the other provider if he or she disagrees. In the case of an itemization that includes services provided by a hospital, outpatient surgery center, or independent diagnostic facility, advice that a request has been made for an audit of the itemization shall satisfy the requirements of this paragraph.

~~If an employer contests all or part of an itemization, any amount determined payable by the appeals board shall carry interest from the date the amount was due until it is paid. If any contested itemization is determined payable by the appeals board, the defendant shall be ordered to reimburse the provider for any filing fees paid pursuant to Section 4903.05.~~

An employer's liability to a physician or another provider under this section for delayed payments shall not affect its liability to an employee under Section 5814 or any other provision of this division.

~~§4903.05 (a) A filing fee of one hundred dollars (\$100) shall be charged for each initial lien filed by providers, or on behalf of providers, pursuant to subdivision (b) of Section 4903.~~

~~—(b) No filing fee shall be required for liens filed by the Veterans Administration, the Medi-Cal program, or public hospitals.~~

~~—(c) The filing fee shall be collected by the court administrator. All fees shall be deposited in the Workers' Compensation Administration Revolving Fund. Any fees collected from providers that have not been redistributed to providers pursuant to paragraph~~

~~(2) of subdivision (b) of Section 4603.2, shall be used to offset the amount of fees assessed on employers under Section 62.5.~~

~~—(d) The court administrator shall adopt reasonable rules and regulations governing the procedures for the collection of the filing fee.~~

4903.05(a) Except as necessary to comply with Section 4903.5, no lien claim or application for adjudication shall be filed under subdivision (b) of Section 4903 until the expiration of one of the following:

(1) Sixty (60) days after the date of acceptance or rejection of liability for the claim, or expiration of the time provided for investigation of liability pursuant to subdivision (b) of Section 5402, whichever date is earlier;

(2) The time provided for payment of medical treatment bills pursuant to Section 4603.2;

(3) The time provided for payment of medical-legal expenses pursuant to Section 4622.

(b) No declaration of readiness to proceed shall be filed for a lien under subdivision (b) of Section 4903 until the underlying case has been settled by way of a compromise and release or where the applicant chooses not to proceed with his or her case.

(c) The Workers' Compensation Appeals Board (WCAB) shall adopt reasonable rules and regulations to ensure compliance with this section, and shall take such further steps as may be necessary to enforce the rules and regulations, including, but not limited to, impositions of sanctions pursuant to Section 5813.

(d) The limitations imposed by this section shall not apply to lien claims, applications for adjudication, or declarations of readiness to proceed filed by or on behalf of the employee, or to such filings by or on behalf of the employer.

#### **STAFF COMMENT**

Adopting the LAO recommendation would result in \$507,000 General Fund savings.

Adopting the lien language above would conform to the Senate's action on the language.

#### **VOTE-ONLY ACTION**

- Adopt LAO Recommendation
- Adopt Compromise Lien Language

**ITEM 8940 MILITARY DEPARTMENT**

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**VOTE-ONLY ISSUE #1: STATE RESOURCES FOR FEDERAL BORDER DEPLOYMENT**

The Subcommittee will conform to Senate language regarding the recently announced National Guard deployment to the United States-Mexico border.

**BACKGROUND**

The Senate adopted the following Budget Bill Language:

*Provision 3*

*3. No expenditures shall be made from the funds appropriated in this item for personnel, equipment, administrative services, facilities or other assistance in support of the deployment of California National Guard troops on the border of the United States for border control operations. No federal reimbursement fund designated for training and readiness shall be redirected to support the deployment of National Guard troops on the border of the United States for border control operations.*

**VOTE-ONLY ACTION**

Conform to Senate.

**ITEMS TO BE HEARD****ITEM 0520            SECRETARY FOR BUSINESS, TRANSPORTATION, AND  
HOUSING**

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**ISSUE 1: 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 7350 DEPARTMENT OF INDUSTRIAL RELATIONS**

**ISSUE #1: FARM LABOR CONTRACTOR FUND**

The Subcommittee will explore the solvency of the Farm Labor Contractor Fund.

**BACKGROUND**

The Farm Labor Contractor Fund provides reimbursement to unpaid wage claims filed by employees who have worked for unlicensed Farm Labor Contractors.

The Department of Finance noticed a \$338,000 deficiency for the Department of Industrial Relations to address a shortfall in the Farm Labor Contractor Fund. The Farm Labor Contractor Fund will be depleted after paying the deficiency, and consequently will not have sufficient funds to pay new claims from unpaid farm laborers for the remainder of the year. The chart below indicates the fund balance for the Farm Labor Contractor's Special Account that funds these unpaid wages claims

<b>Farm Labor Contractors' Special Account</b>	<b>FY 02-03</b>	<b>FY 03-04</b>	<b>FY 04-05</b>	<b>FY 05-06</b>	<b>FY 06-07 (Projected)</b>
Fund Balance (\$ Thousands)	513	544	402	374	3

DIR has increased its enforcement in recent years, and consequently, more farm laborers are now aware of the fund and are filing claims for unpaid wages. The licensing fee charged to contractors is \$500, of which \$50 goes into this fund. The remaining \$450 is remitted to the General Fund, \$350 of this amount is for the support of DIR enforcement efforts and \$100 is a General Fund savings.

The number of licensee is also decreasing; in 2005 there were an estimated 1,340 licensed contractors, a decrease of five percent since 2002, when the State had 1,409 Licensed contractors.

In the current year, 125 claims have been filed against the Farm Worker Remedial Fund for unpaid wages and all claims are against an unlicensed Farm Labor Contractor. In 2005 DLSE filed 55 criminal complaints concerning unlicensed farm labor contractors. As of March 15, 2006, there are 39 pending claims on this fund worth approximately \$82,000.

According to DIR, claims have increased dramatically in the current year, with one contractor generating 52 claims. In addition, the size of the claims is larger than in previous years. The Department is still trying to determine whether this

higher rate of claims will continue in the budget year or will decrease to the historic trend levels.

**STAFF COMMENT**

The Subcommittee could help address the imbalance in this fund by diverting the \$100 portion of the current fee that is remitted the General Fund to the Farm Labor Contract Fund. This proposal would result in a General Fund reduction of \$600,000.

This proposal may not fully fund all claims if the current rate of utilization continues. However, the Subcommittee could reexamine the fund balance next year and make further adjustments if needed.

**ISSUE #2: CAL/OSHA INSPECTION LEVELS**

The California Association of Professional Scientists has requested additional staffing for Cal/OSHA.

**BACKGROUND**

The Cal/OSHA Program is responsible for enforcing California laws and regulations pertaining to workplace safety and health and for providing assistance to employers and workers about workplace safety and health issues.

The Cal/OSHA Enforcement Unit conducts inspections of California workplaces based on worker complaints, accident reports and high hazard industries. There are 22 Cal/OSHA Enforcement Unit district offices located throughout the state of California. Specialized enforcement units such as the Mining and Tunneling Unit and the High Hazard Enforcement Unit augment the efforts of district offices in protecting California workers from workplace hazards in high hazard industries.

The State currently has 200 positions to conduct enforcement inspections Statewide.

A recent State audit faulted Cal/OSHA for failing to detect or investigate underreporting of possible work related injuries and illnesses associated with the Bay Bridge. The audit also faulted Cal/OSHA failed to properly follow up on six complaints.

**REQUEST FOR MORE  
CAL/OSHA POSITIONS**

The California Association of Professional Scientists is requesting additional positions at Cal/OSHA. The Association believes that the overall staffing level for Cal/OSHA inspectors has undermined the ability for the division to adequately function. The Association believes it needs one inspector for every 58,000 employees, a federal OSHA ratio that is currently in effect in 30 other states.

**STAFF COMMENT**

Using federal and AFL-CIO data sets to compare the concentration of inspectors to workers in California shows that California has fewer inspectors than the national average per worker. In general, Cal/OSHA inspector staffing has not changed much in 20 years. To get to this national average, around 25-30 additional inspectors (and support staff) would be needed, at a General Fund cost of \$3 million per year.

**ITEM 8940    MILITARY DEPARTMENT****ISSUE #1: ARMORY MAINTENANCE AND MODERIZATION**

The Military Department has several capital and maintenance requests.

**BACKGROUND**

The Governor's budget proposes \$3.5 million for maintenance and repair of armories throughout California. There is an estimated \$35 million in deferred maintenance costs across the State that needs to be addressed. In addition, the Department projects over \$200 million in modernization projects

**FEDERAL FUNDING  
VARIES BY CATEGORY**

The federal government will reimburse States for new construction and modernization of existing armories. However maintenance is a State responsibility.

Type of Capital Issue	Federal Share	State Share	Projected Unmet Need	Example
Maintenance	0%	100%	\$35 million	Repainting
Modernization	50%	50%	\$200 million	Electrical Systems, Plumbing, Roof Replacement
New Construction	75 %	25%	N/A	Building New Facilities

**BUDGET PROPOSAL**

The Governor's budget proposes \$3.5 million for capital improvements. The funding would be used as follows:

Proposal	Federal Cost	State Cost	Total Cost
Maintenance	\$0	\$2 million	\$2 million
Armory Modernization	\$500,000	\$500,000	\$1 million
Asbestos Facility Survey	\$0	\$500,000	\$500,000
<b>Total</b>	<b>\$500,000</b>	<b>\$3 million</b>	<b>\$3.5 million</b>

**SPRING FISCAL LETTER  
ON CAPITAL**

On May 9, 2006 the Subcommittee approved a Spring Fiscal Letter to provide \$2.5 million for the construction of the Roseville Armory Expansion and Renovation project. Total project costs will be \$6 million (\$3 million General Fund).

**STAFF COMMENT**

The poor physical condition of the armories has resulted in lower morale and difficulty attracting and retaining staff. In addition, it has limited the ability of the Military Department to coordinate with local communities to use these spaces to support communities activities and goals, such as emergency homeless shelters, community gatherings, and emergency response.

**ITEM 0840 STATE CONTROLLER**

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The subcommittee discussed this issue on May 16<sup>th</sup>.

**ISSUE 1: PERFORMANCE AUDITS LANGUAGE**

The SCO requests deletion of Provision 8 of Item 0840-001-0001, which prohibits the Controller from using funds appropriated in the budget to conduct performance audits (as opposed to fiscal audits) without express statutory authorization.

**8. The funds appropriated to the Controller in this item may not be expended for any performance review or performance audit except pursuant to specific statutory authority. It is the intent of the Legislature that audits conducted by the Controller, or under the direction of the Controller, shall be fiscal audits that focus on claims and disbursements, as provided for in Section 12410 of the Government Code. Any report, audit, analysis, or evaluation issued by the Controller for the 2006–07 fiscal year shall cite the specific statutory or constitutional provision authorizing the preparation and release of the report, audit, analysis, or evaluation.**

The SCO argues that its fiscal audits often uncover performance issues and proposes to adopt a target of 20-to-one return for performance audits.

**COMMENTS**

**Performance Audits.** Other entities, such as the Bureau of State Audits, undertake performance audits. If the SCO believes that it has appropriate and cost-effective performance audit opportunities, then it would be advisable for the office to develop a budget proposal for the 2007-08 budget identifying the types of audits it is planning and the resources needed.

**ITEM 8660 PUBLIC UTILITIES COMMISSION**

The subcommittee previously heard the budget of the Public Utilities Commission (PUC) on May 2nd.

**ISSUE #1: IMPLEMENTATION OF GOVERNOR'S CLIMATE ACTION PLAN**

**Climate Change Proposal.** The PUC budget proposes redirection of 12 existing positions specifically to assist in the implementation of the Governor's Climate Action Strategies. These positions would address the initial workload needed to augment or accelerate existing programs to achieve the Governor's more aggressive climate action targets. The PUC's request would fund the following activities and workloads:

- **RPS Acceleration (3 positions).** These staff would begin accelerating the Renewable Portfolio Standard (RPS) from the current goal of 20-percent of electricity generated from renewable resources to the Governor's goal of 33 percent by 2020. Tasks would include additional program analysis, development of legislative proposals, ensuring that implementation of the current RPS goal is consistent with future expansion, and that various commission proceedings take the RPS expansion into consideration.
- **Electric Sector Carbon Policy (2 positions).** Generally, these staff would help evaluate and develop carbon policies, such as cap-and-trade models, and to evaluate the ability to measure and verify emissions savings through electric sector carbon policy *and* other climate programs.
- **California Solar Initiative (1 position).** The additional position appears to be related to verification of greenhouse gas emissions reductions.
- **Energy Efficiency (3 positions).** These positions would generally work on expanding the PUC's existing energy conservation programs to achieve additional reductions in greenhouse gas emissions.
- **Green Buildings (1 position).** This staff person would help the PUC put state buildings on an "energy diet," in the governor's words, by encouraging the state to participate in various PUC energy conservation or distributed generation programs.
- **Combined Heat and Power (2 positions).** The staff would explore and develop a program to expand existing incentives to projects with capacities over 5 MW.



**Redirections.** The 12 new positions requested for the Climate Change Proposal are proposed to be redirected from other activities as follows:

- 6 from the Payphone Consumer Protection Program
- 6 from a variety of other activities within the Energy Division of the PUC.

**BACKGROUND**

On June 1, 2005, the Governor signed Executive Order S-3-05, based on the recommendations of his Climate Action Team (CAT), and directed the Secretary for Environmental Protection (CalEPA) to coordinate a multi-agency effort to reduce statewide greenhouse gas (GHG) emissions and meet the following GHG emission targets:

- By 2010, reduce GHG emissions to 2000 levels.
- By 2020, reduce GHG emissions to 1990 levels.
- By 2050, reduce GHG emissions to 80 percent of 1990 levels.

**Governor's Budget.** In support of the Climate Change Initiative, the Administration is proposing \$7.2 million and 23.4 additional positions across a number of agencies, as shown in Figure 1 below:

**Figure 1**

<b>Governor's Climate Change Initiative</b>
<b>Air Resources Board—\$5.2 Million/14.8 Positions</b>
<p><b>Regulatory Control Measures.</b> Develop regulatory control measures to encourage use of biofuels and refrigeration technologies; and to reduce or eliminate emissions from the semiconductor industry, stockyards, diesel engines used at ports, and light- and heavy-duty vehicles.</p> <p><b>Economic Analysis.</b> Evaluate the economic effects of greenhouse gas (GHG) emission reduction strategies.</p> <p><b>Climate Change Research.</b> Identify links between air quality and climate change.</p> <p><b>Incentives.</b> Expand the Innovative Clean Air Technologies grant program to include technologies to reduce GHG emissions.</p>
<b>Secretary of Environmental Protection—\$900,000/1.9 Positions</b>
<p><b>Coordinate Efforts; Foster Crosscutting Research.</b> Coordinate statewide efforts to meet the Governor's GHG reduction targets; contract for crosscutting research and public outreach.</p>

<b>Energy Commission—\$612,000/3.8 Positions</b>
<p><b>Evaluate Potential GHG Reductions.</b> Evaluate and verify potential GHG reductions for electricity generation and from other key industries.</p> <p><b>GHG Emission Inventory.</b> Update and improve methods and data of the existing statewide GHG inventory.</p> <p><b>Economic Research.</b> Design and develop research projects relating to the economics of climate change.</p>
<p><b>Renewable Portfolio Standard.</b> Plan for an acceleration of the Renewable Portfolio Standard from the current goal of 20 percent renewable energy by 2017 to: 20 percent by 2010, and 33 percent by 2020.</p> <p><b>California Solar Initiative.</b> Add 3,000 megawatts of solar energy by 2017.</p> <p><b>Energy Efficiency.</b> Expand utility energy efficiency programs and increase energy efficiency in state buildings; develop and implement a program to support combined generation of heat and electricity in industrial settings.</p> <p><b>Policy Development.</b> Analyze carbon policy options for the electricity generation industry.</p>
<p><b>Methane Conversion.</b> Increase capture of methane emitted from landfills for use as an alternative fuel.</p> <p>a Redirected positions within the commission.</p> <p>Source – LAO Analysis of the 2006-07 Budget</p>

<b>COMMENTS</b>
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**Subcommittee 3 Action to Place Climate Change Proposals in Conference.**

On May 18<sup>th</sup>, Subcommittee 3 acted to approve the Governor's proposed funding level of \$7.7 million as a set-aside within the California Air Resources Board's budget in order to advance the climate change discussion to Conference. This action reflected concerns that the proposals presented in the Administration's climate change initiative may not align completely with priorities of pending climate change legislation. Discussions related to Climate Change budget proposals and Climate Change Legislation are occurring between both houses and it is expected that the Conference Committee will assign a staff working group to this issue.

**Proposed Subcommittee 4 Action on Climate Change Positions.** It would be consistent with Subcommittee 3's action to deny all 12 proposed Climate Change positions for the PUC with the intent to place the matter in Conference (the Senate has approved the positions.).

**Coordination with Previous Action.** On May 2<sup>nd</sup>, the subcommittee acted to restore a total of 7 positions that were proposed for redirection—3 in the Payphone program and 4 for low-income programs--but also directed that there

be no net increase in PUC positions. Denial of the 12 Climate Change positions, as proposed above, would result in a net reduction of 5 positions. However, of the restored positions, only the 3 Payphone positions were redirected to the Climate Change Proposal in the budget. The 4 positions for Low-Income programs were redirected to high-priority tasks, such as ensuring utility compliance with new procurement rules and implementing the existing requirements for the Renewable Portfolio Standard. Staff recommends, therefore, that the 7 previously restored positions should be offset against the reduction of the 12 positions for Climate Change, resulting in a net reduction of 5 positions. The recommendation also would provide the PUC with flexibility to revise its budgeted staff redirections and funding sources to be consistent with this action.

**ISSUE #2: TELECONNECT PROGRAM**

The Teleconnect Program provides discounts on regular telephone service and advanced telecommunication services that provide access to the Internet to schools, libraries, and qualifying hospitals, health clinics, and community-based organizations. Dial-up and T1 lines qualify. Some DSL providers participate, but the largest do not. The program provides a 50 percent discount for qualifying services. The service carrier applies this discount to the qualifying entity's telecommunications bill. The service carrier then submits claims to PUC to be reimbursed for the discounts provided. Schools receive about 90 percent of the benefit under the program—much of it as a subsidy to regular phone service. The program is funded by telephone ratepayers through a surcharge on their phone bills.

The Governor's budget proposes \$22 million to fund the Teleconnect Program in the budget year. The May Revision proposes \$4.8 million in additional Teleconnect fund monies to support additional claims that are projected to be received in the budget year. In addition, the PUC has identified funding deficiencies of \$8.2 million in the current year and \$4.8 million for the prior year, based on carrier claims.

Based on the figures above, total proposed spending in 2006-07 is \$26.8 million, compared with an estimated total of \$28.6 million in the current year and \$24.6 million in the prior year.

**COMMENTS****Poor Implementation of E-Rate Coordination.**

SB 1102, a 2004 budget trailer bill, established new requirements to coordinate the state Teleconnect discount with the federal E-Rate discount. These requirements became effective January 1, 2006.

**E-Rate.** The federal government's E-Rate Program also offers discounts on telecommunications services to schools and libraries (but not to hospitals, clinics or nonprofit organizations). E-Rate provides a 20 percent discount on eligible services to libraries and a discount of 20 percent to 90 percent on services to schools (Higher discounts are awarded to schools in rural locations and to schools with a higher percentage of students that qualify for the National School Lunch Program). Schools and libraries may receive both federal E-Rate and state Teleconnect discounts, the federal discount is applied first, and then the state discount is applied to the remaining costs. For example, a school with 50 percent of students qualifying for the National School Lunch Program would receive a 60-percent E-Rate discount. The PUC's Teleconnect Program would then provide a 50 percent discount on the remainder of the bill, so the net cost to

the Teleconnect Fund would be 20 percent of the full bill (half of the 40 percent remainder after the E-Rate discount).

**New Coordination Requirements.** Prior to SB 1102, the PUC relied on schools and libraries to apply for E-rate discounts and on service providers to take them into account. There was no assurance that schools and libraries were using E-Rate or that service providers were properly applying E-rate discounts prior to Teleconnect discounts because the two programs operate differently. SB 1102 imposes the following two requirements:

1. The PUC must require eligible schools to provide it with simple information needed (such as percentage of students eligible for the School Lunch Program) for the PUC to compute the applicable E-Rate discount.
2. The PUC must calculate the discount and then the commission must apply that E-Rate discount prior to providing the Teleconnect discount without regard to whether or not an eligible school or library has applied for E-Rate.

These requirements were intended to provide a strong incentive for schools and libraries to make use of E-Rate in order to minimize state costs, to simplify administration and reduce the burden on carriers, and simplify verification of carrier claims.

**Requirements Not Met.** The PUC has not required schools to provide the necessary information to calculate E-Rate discounts, nor has the PUC done the calculations. Instead, the PUC is still relying on the service providers. It has asked the service providers to use an average E-Rate discount if a customer has not applied for E-Rate or an application is pending; use the actual E-Rate discount if the customer has one; perform a true-up adjustment when a customer obtains their E-Rate federal approval; and determine if a customer qualifies for special treatment as a small school. These provisions fail to comply with SB 1102 and continue the reliance on carriers to interact with their customers and properly coordinate E-Rate and Teleconnect discounts.

**Funding Request Fails to Take New Requirements Into Account.** The estimate on which the budget request is based fails to include any savings from better coordination with E-Rate.

Staff suggests that it would be appropriate to place the Teleconnect Program in Conference. Prior to Conference Action, the PUC should redesign its program to comply with SB 1102 and revise its spending estimate for both the current year and 2006-07.

**ISSUE #3: TELECOMMUNICATIONS CONSUMER BILL OF RIGHTS**

**Governor's Budget and Finance Letter.** The Governor's budget and a Finance Letter (dated April 21, 2006) request \$12.8 million from ratepayer funds for initial costs associated with implementing the PUC's recent decision regarding the Telecommunications Consumer Bill of Rights. The PUC indicates that \$4.6 million is for one-time costs associated with startup of the new program. The commission proposes to allocate budget expenditures to support the following:

- **Consumer Education Campaign.** \$7.1 million to create a consumer education campaign in seven different languages. This includes \$2 million for media experts to design and produce the campaign, \$3.5 million for advertising, \$1 million for outreach by community-based organizations, and \$350,000 for PUC community meetings and forums. Ongoing costs would be \$3 million annually.
- **Database Improvements.** \$1.7 million (\$1.2 million one-time) to upgrade the commission's database to better track consumer inquiries and complaints.
- **Staff Training.** \$650,000 (one-time) for training of enforcement staff and complaint resolution staff.
- **Attorney General/District Attorney.** \$300,000 (ongoing) to assist in developing actions against fraudulent activities that the Attorney General or local district attorney will pursue in court.
- **Program Evaluation Consultant.** \$500,000 (\$400,000 one-time) for independent review of the effectiveness of the education program.
- **Additional Staff.** \$2 million for 29.5 positions to implement the program. Positions requested include 13 bilingual consumer affairs representatives and 7.5 additional analysts for the telecommunications consumer fraud unit.
- **Other.** \$550,000 (\$194,000 one-time) for other equipment and expenses, including providing enforcement staff access to Lexis/Nexis to assist in enforcement research.

**PUC Justification.** The PUC indicates that the program created by the March 2, 2006 decision requires a new model of enforcement that the current enforcement group in the commission's Consumer Protection and Safety Division cannot effectively implement without additional staff. The new model requires collaboration and communication with other enforcement agencies such as the Attorney General. The commission proposes 8.5 new positions to increase enforcement. The commission currently has 12 positions in the enforcement group.

The decision requires the Consumer Affairs Branch to double the number of customer phone service hours from five hours/day to 10 hours/day and requires that Consumer Affairs Representatives have multiple language capabilities. The commission proposes 19 new positions to increase its customer contact by 60 percent. The PUC also proposes upgrading its database systems used by the Consumer Affairs Branch to enter complaints. The upgrade is intended to serve a dual purpose—to improve customer service and to identify patterns and trends to help the enforcement branch identify targets for investigation.

## BACKGROUND

**The PUC Decision.** On March 2, 2006, the PUC adopted a decision in the six year-old proceeding on the Telecommunications Consumer Bill of Rights. In this decision, the commission did not take a traditional command and control regulatory approach, but instead focused the decision on providing better consumer information. The commission indicates that it preferred this approach because a traditional regulatory approach would not address the considerable variation among technologies and business models employed by telecommunications companies and could stifle innovation. The decision proposes a new consumer protection program at the PUC to identify and stop fraud and anti-competitive behavior by implementing new rules and focusing on enforcement and education efforts. The decision directs PUC staff to undertake 23 initiatives to accomplish the following:

- Enhance enforcement and fraud prevention
- Enhance consumer complaint resolution
- Initiate consumer education efforts in multiple languages

## COMMENTS

**Exactly What Is the Problem?** The budget proposal and the PUC decision lack a specific problem definition, as well as quantifiable goals and objectives. In part, this reflects the rapidly changes occurring in telecommunications and fragmented regulatory jurisdiction (the PUC does not regulate broadband, satellite, or cable services; and its wireline and wireless jurisdiction is shared with the federal government). The commission even seems confused as to whether there really is a problem--the decision goes to great lengths to point out that the commission knows little about the many thousands of complaints that it has on hand—perhaps they are unfounded or just the "normal" level of complaining or deal with one of the many issues beyond the PUC's jurisdiction. In any case, the limited accessibility of the consumer hotline and a long backlog of complaints have given consumers little incentive to file complaints with the PUC.

**Exactly What Are These Consumer Rights?** Below are two of the telecommunications consumer rights enunciated in the commission's voluminous decision:

- Consumers have a right to be charged only according to the rates, terms and conditions they have agreed to, *as set forth in service agreements or carrier tariffs governing services ordered.* [emphasis added]

It is doubtful that this right means anything much in practice. Few consumers will take the time and trouble, or have the literary skills, to read carefully through their service agreement and carrier tariffs, especially while they are trying to figure out all of the features of the new phone they are getting when they sign up. Many people may not realize that the monthly charge prominently advertised and displayed probably is considerably less than they will pay with taxes, surcharges, company add-ons and extra-charge services.

- Consumers have a right to accurate and understandable bills for products and services they authorize, and to mechanisms for resolving disputes and correcting errors that are accessible, *if readily achievable*; fair; efficient; and reasonable. [emphasis added]

Apparently, dispute resolution and error correction are rights only to the extent that they are readily achievable.

**Exactly What Will Consumers Learn?** The proposal seeks more than \$10 million for a consumer education media campaign and outreach efforts through CBOs and others. In contrast, telecommunications providers probably spend hundreds of times that amount on advertising. To be noticed, the PUC's message must be simple and clear. Here is how the PUC decision envisions the campaign:

We envision three prongs to our Commission-led consumer education program. The first prong is a broad-based information campaign that helps all consumers in the face of the complex and ever-changing array of telecommunications choices. The second prong consists of an education program designed to inform consumers of their rights. We will facilitate public access to our rules (including those compiled in the General Order). We also plan to advertise assistance provided by the CAB call center, and ensure that call center employees (and other Commission staff members) are aware of various laws and rules that telecommunications carriers must follow. The third prong combines the first two prongs and focuses more on orienting those customers who are non-English or low-English proficiency speaking, seniors, disabled, or low-income. We anticipate that we will work closely with CBOs through our efforts to educate these targeted communities.



With a message like that, it is no wonder that the PUC is requesting \$2 million for media experts to design its educational campaign.

**Is It the Right Approach?** There continues to be considerable disagreement with the approach taken by the commission on this issue. Many find that the commission should have required more of the telecommunications companies. For example, the commission could have enacted new rules to change billing formats to make them more understandable and require that bills be in languages consistent with the solicitation offering the service.

### **Staff-Proposed Changes**

1. Reduce the amount for design and production of media campaign by \$1 million (from \$2 million to \$1 million). The commission should do more work itself to focus its message. This will reduce the cost of designing and producing the campaign.
2. Defer requesting 5 of the 6.5 requested investigation positions until 2007-08, when the new consumer complaint database should be running and there may have been enough time to accumulate meaningful complaint records into the new database to generate patterns and trends. The PUC decision itself finds the current complaint information of little use. (Approximate savings of \$340,000 in 2006-07).
3. Fund remaining positions based on an October 1 hiring date (reduction of 6.1 personnel years and approximately \$415,000). The PUC's budget proposal makes the unrealistic assumption that all of the new positions will be in place on July 1. Reducing funding to reflect an average of 9 months is more reasonable, but may still be overly generous, given that the commission took more than six months to fill the 5 additional positions provided by the Legislature in the current year to address the complaint backlog.
4. Reduce the education program evaluation contract by \$200,000 (from \$500,000 to \$300,000). Evaluation is important, but much of the work in 2006-07 will be limited to designing the evaluation methodology and instruments. The PUC may, however, need to request more than the \$100,000 scheduled for evaluation in 2007-08, which should be the first full year program operation.

The four proposed changes discussed above would reduce the PUC's budget request by a total of approximately \$1.95 million and 11.1 PYs in 2006-07.

**Reporting Language.** Staff suggests that it would be helpful to direct LAO to work with the PUC and legislative staff to develop Supplemental Report Language for the PUC to report by January 1, 2007 regarding its progress in

implementing this proposal, including progress in eliminating the consumer complaint backlog and reducing the time to clear complaints, installation and operation of the new complaints database and procedures, and the deployment of and initial feedback regarding the education program.

**CONSENT ISSUE #4: WORKSTATION BUDGET BILL LANGUAGE**

On May 2<sup>nd</sup>, the subcommittee approved (on consent) a PUC budget request for \$2.4 million in 2006-07 to be followed with an additional request for \$2.4 million in 2007-08 to replace the PUC's modular workstations, which were purchased in 1986. The Senate also approved the request, but adopted Budget Bill Language to explicitly limit the augmentation to 2 years.

**Consent Action:** Conform to Senate language.

**ITEM 9210-101-0001****COPS/JUVENILE JUSTICE GRANTS**

The Governor's January budget proposal provides \$200 million in this item for the following two components of this grant program:

- **Citizens' Option for Public Safety (COPS).** The Governor's budget proposes to maintain COPS funding at \$100 million. The program provides per-capita grants for local police departments, sheriffs, and district attorneys.
- **Juvenile Justice Crime Prevention Act.** The Governor's budget proposes \$100 million for local juvenile justice grants. This represents an increase of \$73.9 million compared with the current year. This increase, however, simply maintains the actual program funding. Current-year funding was reduced on a one-time basis due to availability carryover balances held by local governments.

**ISSUE #1: MAY REVISION PROPOSAL—RESTORE ORIGINAL FUNDING LEVEL**

**Increase Funding For Citizens' Option for Public Safety/Juvenile Justice Crime Prevention Act Grants (COPS/JJCPA).** The May Revision requests an increase of \$42.6 million (General Fund) for the COPS/JJCPA grant programs. This request would restore the programs to the 2000-01 funding level as authorized by Chapter 353, Statutes of 2000 (AB 1913, Cardenas). The additional funding is to be distributed equally between the two programs pursuant to existing law, so that each program would receive \$121.3 million in 2006-07.

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**PROPOSITION 1A CLEANUP PROPOSALS**

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Proposition 1A, approved by the voters at the November 2004 general election, provided local governments with constitutional protection for their property tax and sales tax revenues, including property tax revenue shifted from K-14 education to replace former local revenue from state vehicle license fee (VLF) backfill payments. Proposition 1A was part of a state-local agreement that included a two-year annual state budget savings \$1.3 billion from a temporary reduction in property tax revenues to cities, counties, redevelopment agencies, and special districts. The agreement included two pieces of implementing legislation: SB 1096 (Committee on Budget and Fiscal Review), Chapter 211/2004, and AB 2115 (Committee on Budget), Chapter 610/2004.

**ISSUE #1: CLEANUP REQUESTS**

The Budget Committee has received the following requests:

**a. Stranded Pre-2006 Off-Highway Vehicle (OHV) Fees**

The State Controller's Office is unable to allocate \$1.1 million of revenue from OHV fees collected prior to January 1, 2006. The allocation of these OHV fees is governed by Vehicle Code Section 38240, which cross-references the population-based allocation mechanism that formerly was included in Revenue and Taxation Code Section 11005. However, the 2004 local government agreement legislation deleted the cross-referenced provision. As a result, the revenues have been "stranded." Proposed trailer bill language restores the former allocation authority for these remaining pre-2006 funds. Starting in 2006, AB 2666, (Maldonado) enacted a new allocation methodology effective starting January 1, 2006. (Request of California State Association of Counties, Urban Counties Caucus, Regional Council of Rural Counties.)

**b. Stranded "Excess" VLF Compliance Revenues**

"Excess" VLF revenue derives from delinquent VLF revenues and penalties collected by the Franchise Tax Board on behalf of the Department of Motor Vehicles. A special Realignment account receives the first \$14 million of these revenues each year. The "excess" over \$14 million was allocated to cities and counties on a population basis. However, as with the OHV VLF fees, the cross-referenced allocation language was deleted by the legislation implementing the local government agreement in 2004. According to the State Controller's Office, the stranded amounts to date total \$39.2 million (\$23.2 million from 2004-05 and \$16 million for the current year). Proposed trailer bill language would restore the population allocation authority for these funds. VLF revenues are constitutionally dedicated to local government. (Request of California State Association of Counties, Urban Counties Caucus, Regional Council of Rural Counties.)

**c. County Redevelopment Loan Repayment**

Legislation implementing the 2004 local government agreement authorized counties to borrow from their county redevelopment agency to cover their temporary loss of property tax revenue in 2004-05 and 2005-06 and specified repayment within three years. Since then, the period over which it will pay local governments' their deferred mandate reimbursements has been extended to 15 years. Proposed trailer bill language would make the maximum term of county redevelopment loans consistent with the current repayment schedule for deferred mandate claims and also allows the redevelopment agency to offset against the loan liability county capital or deferred maintenance spending if those projects further the redevelopment plan. (Request of Santa Cruz County.)

**COMMENTS**

All of the requested actions would provide fiscal benefits to local governments with no impact on the state. Assembly approval of these requests would place these issues in Conference since they were not able to be considered by the Senate.

**ITEM 1900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

The California Public Employees' Retirement System (CalPERS) administers retirement and health benefits for more than 1.4 million active employees and retirees of state and local agencies in California. Benefits include retirement, disability, and survivor's retirement benefits, Social Security for State employees, and the development, negotiation, and administration of contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long term care program for members and eligible individuals.

CalPERS is governed by a Board of Administration. The California Constitution provides that the Board of Administration has authority over the administration of the retirement system. Therefore, the budget data presented here is for informational purposes only, with the exception of the component of the Health Benefits Program funded from the Public Employees' Contingency Reserve Fund.

The Governor's budget allocates \$1.3 billion from the General Fund and Special Fund contributions totaling \$745,000. The Governor's budget proposes total expenditures of \$12.3 billion with funding coming primarily from the Public Employees' Retirement Fund and the Public Employees' Health Care Fund.

**ISSUE 1: DIVERSITY OF INVESTMENT**

On June 15<sup>th</sup>, 2004 CalPERS submitted to the legislature a Commitment to Diversity Report. This report discussed CalPERS existing diversity programs and participation rate levels in CalPERS business activities by ethnic minority firms, women-owned firms, and ethnic minority and women employees, focusing on the management of CalPERS investment assets.

**COMMENTS**

At the request of the chair, this is an informational issue for CalPERS staff to update the committee on CalPERS status and progress since the 2004 report.

**ITEM 1920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

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The State Teachers' Retirement System (STRS) provides retirement related benefits and services to 735,000 active and retired educators in public schools from kindergarten through the community college level. The system provides three types of benefits: 1) service retirement benefits determined on the basis of member's age, years of service, and final compensation 2) survivor benefits and 3) disability benefits.

The STRS board has twelve members; four ex-officio members including the Superintendent of Public Instruction, State Treasurer, State Controller, and the Director of Finance; three public members; one retiree of STRS; one member that is either a school board member or community college trustee; and three representatives elected by STRS members.

The main objectives of STRS include: the maintenance of a financially sound retirement system, the maintenance of efficient administrative operations, continuous improvement of the delivery of benefits products and services to STRS members, and the development and improvement of the benefits and products to STRS members.

**ISSUE 1: DIVERSITY OF INVESTMENT**

At the request of the chair, this is a follow up based on the information provided to the committee on May 3, 2006.



**ISSUE 2: REVISED BUDGET**

It is requested that Item 1920-011-0001 be decreased by \$119,516,000 to reflect an error recently discovered in the California State Teachers' Retirement System (CalSTRS) accounting system. The error resulted in the state underpaying the Benefits Funding and Supplemental Benefit Maintenance Account in fiscal years 2003-04 through 2005-06. The error also led to the state overpaying the CalSTRS 1990 Benefits Funding in fiscal years 2004-05 and 2005-06. These General Fund transfers have already been completed; therefore the corrections, which result in a net overpayment to CalSTRS, are included as an adjustment to the state's 2006-07 transfer from the General Fund.

It is requested that Item 1920-011-0001 be decreased by \$1,975,000 to reflect CalSTRS revised estimate of teacher compensation. The state contributes a total of 4.517 percent of teacher compensation to CalSTRS. This revised estimate of teacher compensation results in a reduction to the state's 2006-07 contribution.

Trailer bill language to effect the above adjustments is also part of this request.

Section 1. (a) It is the intent of the Legislature to provide for a means of rectifying errors made in calculating the state's contributions to the State Teachers' Retirement System during fiscal years 2002-03, 2003-04, 2004-05, and 2005-06, which have been identified to the board by its actuary. The following accounting adjustments shall be made notwithstanding any other provision of law, including without limitation, Education Code 22954 and Education Code 22955. This statute shall become inoperative on June 30, 2007.

(b) Notwithstanding the board's creditable compensation calculation of October 1, 2005, for the 2006-2007 fiscal year only the State Controller shall account the continuous appropriation of Education Code 22955(a) to be the amount based on the board's creditable compensation calculation of March 2006, which is less than an appropriation based on the board's creditable compensation calculation of October 1, 2005 in the amount of one million, three hundred seventy-seven thousand, eight hundred and seventy dollars (\$1,377,870).

(c) Notwithstanding the board's creditable compensation calculation of October 1, 2005, for the 2006-07 fiscal year only the State Controller shall account the continuous appropriation of Education Code 22954(b) to be the amount based on the board's creditable compensation calculation of March 2006, which is less than an appropriation based on the board's creditable compensation calculation of October 1, 2005 in the amount of one million, seven hundred six thousand, six hundred eighteen dollars (\$1,706,618).

(d) The State Controller shall account the amount appropriated pursuant to Education Code 22955(a) in fiscal year 2004-05 that is in excess of the amount required, which has been determined by the board to be eight hundred and eighty-one thousand, seven hundred and twenty-three dollars (\$881,723), as an advance of the appropriation pursuant to Education Code 22955(a) for fiscal year 2006-07.

(e) The State Controller shall account the amount appropriated pursuant to Education Code 22954(b) in fiscal year 2004-05 that is in excess of the amount required, which has been determined by the board to be one million, ninety-two thousand, eight hundred and sixty-five dollars (\$1,092,865) as an advance of the appropriation pursuant to Education Code 22954(b) for fiscal year 2006-07.

(f) The State Controller shall account the amounts appropriated pursuant to Education Code 22955(b) in fiscal years 2002-03 through 2005-06 that are in excess of the amounts required, the cumulative amount of which has been determined by the board to be one hundred twenty-two million, six hundred thousand, two hundred thirteen dollars (\$122,600, 213), as an advance of the appropriation pursuant to Education Code 22955(b) for fiscal year 2006-07.

Section 2. The net effect of these accounting adjustments shall be that the State Controller has already paid from the General Fund to the State Teachers' Retirement Fund Defined Benefit Program the amount of one hundred twenty-two million, one hundred four thousand, sixty-six dollars (\$122,104,066) of the amount that would otherwise be transferred by the State Controller on July 1, 2006; and the State Controller will transfer an additional six hundred thirteen thousand, seven hundred fifty three dollars (\$613,753) more than the amount that would otherwise have been transferred from the General Fund to the Supplemental Benefit Maintenance Account in the State Teachers' Retirement System on July 1, 2006.

<b>COMMENTS</b>
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This is correcting an error from previous years, and changing State Contributions to conform to revised estimates.

**ITEM 8260 CALIFORNIA ARTS COUNCIL****ISSUE 1: EXTENSION OF LIQUIDATION PERIOD**

The Italian Cultural Society of Sacramento was originally allocated funding for the Italian Cultural Museum in 2000-2001 in the amount of \$300,000 for "the purpose of assisting with expenditures associated with the capitol outlay expenditures for the purchase of land to be used solely for the development and construction of an Italian American Museum and Cultural Center." The Italian Cultural Society provided adequate documentation and funds were remitted to them. All but \$7,295.55 was allocated of that funding.

In 2001-2002, another \$500,000 was allocated to the Italian Cultural Society of Sacramento. The Legislature directed the Arts Council to issue all awards quickly without delay, including the Italian Culture Society award.

Because of this, the funding was given to the Italian Cultural Society, but no documentation or reporting has since been required.

The Italian Cultural Society claims that "the money is being placed in escrow now to cover the cost of acquisition of the project property. They have a contract with the developer to purchase a building in the development. The building is now under construction. However, the building will not be completed for a few months, at which time the escrow closes and the project is complete."

Because the project will not be completed, and thus escrow will not close until after June 30<sup>th</sup>, 2006, the project requires an extension to allow the construction to finish.

**COMMENTS**

It is possible that because the funding is already in escrow, this extension is not necessary, but it is not clear. As such, the department has asked for this extension to be safe. This funding has already been given by the state, so there is no additional cost to the General Fund.

Because of the circumstances surrounding the disbursement of these funds the and several years without following it, the committee may wish to adopt language similar to below if extending the liquidation period for the funds.

8260-490—Reappropriation, California Arts Council. The balance of the appropriation provided in the following citation is reappropriated for the purpose of assisting with expenditures associated with the capital outlay, property acquisition, development, and construction of an Italian American Museum and Cultural Center, as sponsored

by the Italian Cultural Society, and shall be available for encumbrances or expenditure until June 30, 2007.

001—General Fund

(1) \$500,000 in Item 8260-105-0001, Budget Act of 2001 (Ch. 106, Stats. 2001).

Provisions:

1. By September 1, 2006, the Italian Cultural Society shall provide to the Department of Finance documentation of the amount and purpose of funds encumbered prior to June 30, 2006 for the capital outlay, development, and construction of an Italian American Museum and Cultural Center, the amount remaining, and the expenditure plan for the remaining funds.

**ITEM 9800 AUGMENTATION FOR EMPLOYEE COMPENSATION**

This budget includes funding for state civil service and related employee compensation for changes in the cost of new agreements with employee bargaining units and other costs that do not fit in an individual department's budget. Employee compensation funding is based upon approved Memoranda of Understanding for represented employees that are ratified by the Legislature. Compensation for excluded employees is determined by the Department of Personnel Administration or other authorized entities.

The Governor's May Revise proposes an increase of General Fund expenditures of \$80 million and \$7.8 million special fund.

**ISSUE 1: PLATA LAWSUIT**

In April 2001, the Prison Law Office filed a class action lawsuit titled *Plata v. Davis* challenging the State's ability to provide adequate medical care to prison inmates.

Compliance with the terms and conditions of the settlement agreement is dependent upon the phased implementation of the Inmate Medical Services Program Policies by the Department of Corrections and Rehabilitation to meet the minimum level of care necessary to fulfill the department's obligation. The benefits of the proposed changes include: more timely and comprehensive assessment of inmate needs as they enter CDC; improved access to medical services; the implementation of a comprehensive chronic care program using standardized data collection forms and guidelines consistent with National Commission on Correctional Health Care panels where at each visit, an assessment will be made on how well the inmate is doing as compared with established standards; staffing of emergency rooms by registered nurses 24 hours a day, seven days a week and a 30 day follow-up assessment by the primary care physician whenever a referral of an inmate to a specialist has been made.

The Administration requested funding of \$67 million (\$56 million General Fund) in the January 10 Governors' Budget to increase the pay of State-employed doctors and nurses in accordance with the court order to immediately increase compensation for several classes of prison medical personnel.

The May Revise requests an increase to that amount of \$25,164,000 for costs related to the *Plata v. Schwarzenegger* lawsuit. Part of this increase is to offset the May Revise removal of \$10.74 million in special funds previously budgeted for Plata.

The new estimates provided are:

CDCR (Adult): \$43.38 million  
CDCR (Youth): 2.45 million  
DMH: \$36.56 million (plus .34 million special fund)  
Total: \$82.38 million General fund and .34 million special fund

**LAO**

Court-ordered pay increases for personnel in a single department, such as CDCR, likely will produce higher salary costs for similar personnel throughout state government. The LAO, however, continues to be concerned that the administration's handling of pay raises resulting from *Plata* will inflate public employee salaries beyond what is required to meet court mandates. In addition, given subcommittee testimony that medical personnel in other departments face staffing shortages similar to those of CDCR and DMH, a question for the Legislature is what technique should be used to choose medical and similar personnel, if any, that will receive compensation 1) not required by the court orders and 2) outside of the collective bargaining process.

In testimony before Senate Budget and Fiscal Review Subcommittee No. 4 on May 17, 2006, the Department of Personnel Administration stated that all of the compensation increases budgeted in the May Revision for CDCR were "required" by the *Plata* court order, although these costs are more than double the approximately \$21 million of annual funding estimated by the administration to be needed as of December 2005. Funds budgeted in the May Revision for DMH salary increases match closely those of which the Legislature already has been informed.

**COMMENTS**

The questions raised by the LAO are valid concerns in making sure that the committee does not over extend the effects of the court order and begin to infringe on the collective bargaining process. LAO points out that the costs for DMH seem in line with previous estimates, though the CDCR costs have doubled from initial estimates.